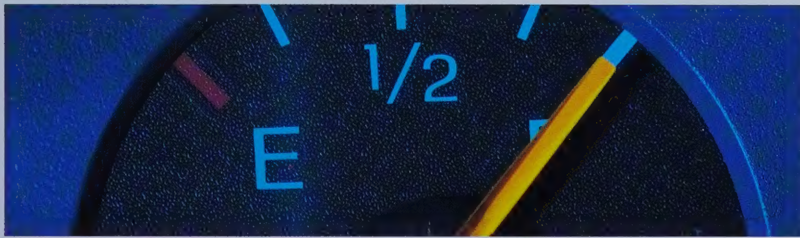
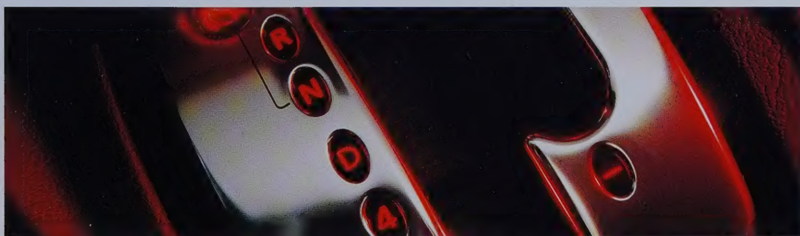
1997

annual report



fuel systems

engine systems



transmission systems

Tesma

corporate profile

Tesma International Inc. is a global supplier of highly engineered powertrain, fueling and cooling systems and components for the automotive industry. Tesma's strong market presence and strategy for continuing growth results from our unique focus on **Innovation**, **Engineering** and **Performance**.

Tesma employs over 2,600 people at 18 manufacturing divisions in North America and Europe. Tesma's Class A shares are listed for trading on the Toronto Stock Exchange (TSM.A) and the NASDAQ National Market (TSMAF).

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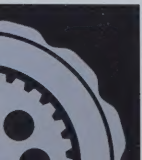
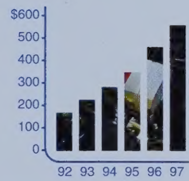
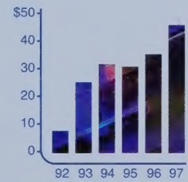


financial accomplishments

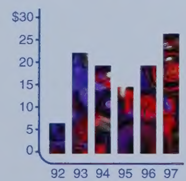
	Change	1997	1996
		(Canadian dollars in millions, except per share amounts)	
FOR THE YEAR			
Sales	+ 21%	$ 551.5	$ 455.6
Income before minority interest, equity loss and taxes	+ 30%	45.7	35.3
Net income	+ 36%	26.5	19.5
Research & development expenditures	+ 51%	13.1	8.7
Operating cash flow		30.9	37.6
AT YEAR END			
Cash		$ 75.8	$ 35.3
Total assets		349.5	258.4
Long-term debt		13.4	15.9
Convertible Series Preferred Shares, debt portion		57.2	64.1
Shareholders' equity		174.9	83.4
PER SHARE			
Earnings per Class A Subordinate Voting Share or Class B Share			
Basic	+ 27%	$ 1.31	$ 1.03
Fully diluted	+ 24%	$ 1.13	$ 0.91
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding (millions)			
Basic		18.8	18.0
Fully diluted		26.6	25.1



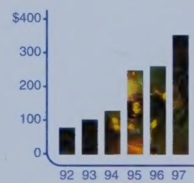
sales



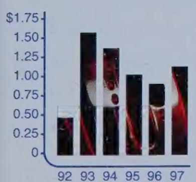
income before minority interest, equity loss and taxes



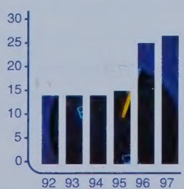
net income



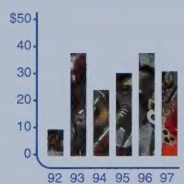
total assets



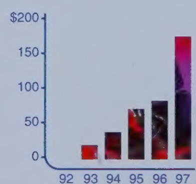
fully diluted earnings per share



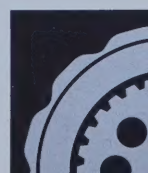
average number of fully diluted shares outstanding (millions)



operating cash flow



shareholders' equity



Manfred Gingl
President and Chief Executive Officer

report to shareholders

Fiscal 1997 proved to be another year of significant accomplishments for Tesma International Inc. We reported record sales of $551.5 million, record net income of $26.5 million and fully diluted earnings per share of $1.13, all while North American and European vehicle production levels remained essentially unchanged over the prior year. Our performance was recognized by the financial and investment communities, both in terms of the improvements in our Class A share trading price ($22.00 as of July 31, 1997, compared to $10.50 for the prior year) and, perhaps more importantly, the enthusiastic acceptance of our June 5, 1997 public offering which generated gross proceeds to the Company of $69.0 million. This treasury issuance of 3.7 million Class A shares, combined with a 1.0 million share secondary offering by Magna International Inc., increased our listed share base to over 8.6 million Class A shares, and improved our capitalization and attractiveness in the public markets.

The proceeds from the offering are being used to advance Tesma's growth strategy for the future, with approximately $50 million allocated to capital expenditures and investments in technologies to support new programs and contracts with our North American and European customers. During fiscal 1997, Tesma was awarded more than $195 million of new business that will be launched over the next few years. The balance of the offering proceeds, together with Tesma's other cash resources, will be used for general business purposes, including strategic acquisitions and other international growth opportunities.

Tesma's focus is to continue to build on our position as a leading supplier to the global automotive industry across our powertrain (engine and transmission), fueling and cooling product lines. Consistent with this focus, during fiscal 1997, Tesma acquired Eralmetall GmbH, a German-based gravity and high pressure die caster of aluminum components, with joint venture operations in France. While the integration of Eralmetall into our operating culture continues, this acquisition has provided Tesma with complementary aluminum casting and machining capabilities, and an expanded product and customer base in the European automotive market. In addition,

Tesma's sales and marketing organization was realigned and expanded internationally to better service the requirements of our diversified worldwide customer base.

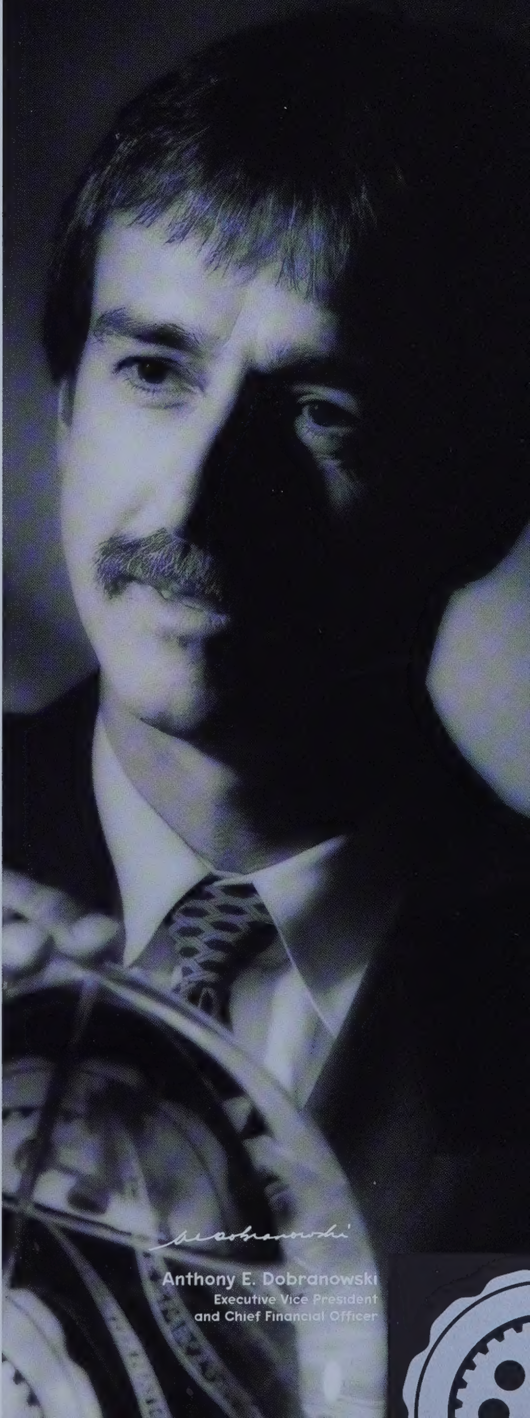
Fiscal 1997 was also highlighted by the successful implementation of our Tesma Powertrain Modules strategy, which was introduced during the previous year to address the automotive industry trend towards the sourcing of modular products for engine and transmission applications. This strategy, together with a comparable modular systems approach in the fueling and cooling product areas, effectively combines our core engineering, testing and diversified processing capabilities on a global basis, and has resulted in the award of numerous production and product development programs, as described elsewhere in this Annual Report.

Technical innovation through research and development remains a priority at Tesma. During fiscal 1997, our expenditures on new product and processing technologies increased by more than 50% over the prior year.

Tesma's manufacturing divisions continued, during fiscal 1997, to surpass customer expectations for technology, quality, delivery, cost and management. Recognition of this superior capability was achieved through the accelerated QS9000 certification – the automotive industry equivalent of the ISO 9001 quality system standards – of our North American divisions, well in advance of the compliance deadlines imposed by our customers.

The employee training and development initiatives introduced by management in fiscal 1997 remain key priorities for the coming year. These initiatives, together with Tesma's focus on "clean and lean" operating excellence and the pursuit of product and process innovation across our product lines, will allow Tesma to continue to take full advantage of the opportunities existing in the global automotive industry.

As in previous years, the success enjoyed by Tesma is a direct result of the efforts and dedication of our employees, who, as shareholders of the Company, also participate in Tesma's results. On behalf of management and our board of directors, we thank all Tesma employees for their contributions and support throughout fiscal 1997.



Anthony E. Dobranowski
Executive Vice President
and Chief Financial Officer

Tesma & the automotive industry

Over the last number of years, substantial developments have occurred in the North American and European automotive industries. These include:

- structural changes in the relationship between OEMs and suppliers
- the increase of “New Domestic” or transplanted OEMs
- increased globalization

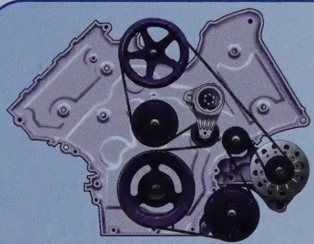
Tesma has successfully capitalized on these developments and increased sales from $167.7 million in fiscal 1992 to $551.5 million in fiscal 1997, a compounded annual growth rate of 27%.

Looking forward, Tesma believes that the global scope and perspective of the automotive industry will continue to evolve, as original equipment manufacturers (OEMs) concentrate their resources on:

- vehicle design and styling
- selection of systems suppliers
- vehicle assembly and distribution
- vehicle marketing and financing.

Automotive Manufacturers
- vehicle design & styling
- coordination of vehicle platforms
- selection of systems suppliers
- vehicle marketing & financing

Automotive Assembly Plants
- coordination of vehicle systems
- vehicle assembly
- distribution



Automotive Systems Suppliers
- complete responsibility for vehicle systems:
  - design & development
  - engineering
  - testing & validation
  - program management
  - manufacturing

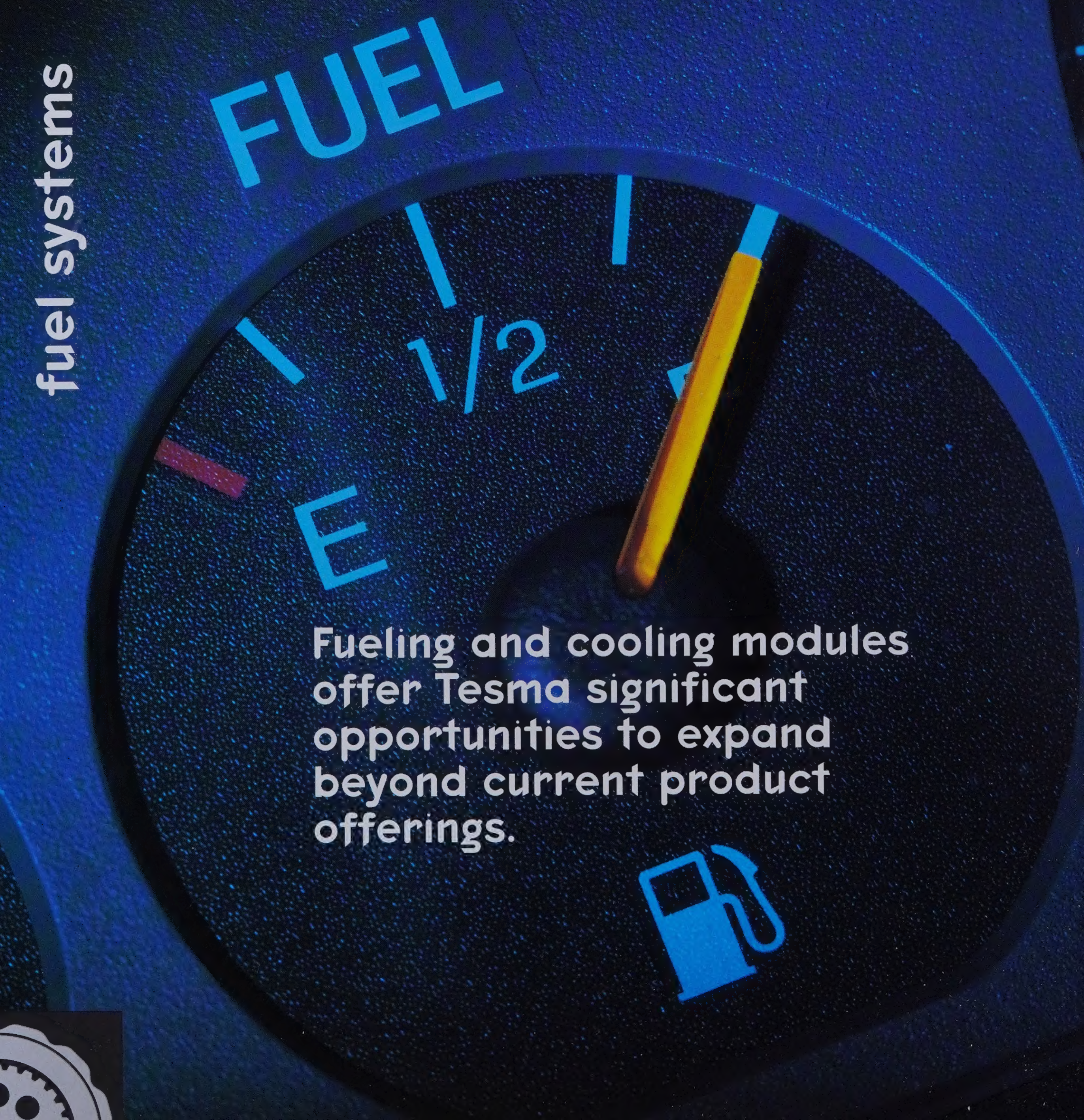
All of these changes will continue to offer significant growth opportunities for strategically positioned suppliers like Tesma.

OEMs, to improve competitiveness and more effectively deploy their resources across worldwide markets, will accelerate their reliance on Tesma and other full service systems suppliers who have the capability to design, engineer, test and manufacture their products on a global basis. This full service capacity in multiple markets is particularly important as the OEMs are looking to use, where practical, the same global supplier for common components. Tesma, with our significant manufacturing presence in both North America and Europe, and our international sales, engineering and project management resources, is uniquely positioned to take advantage of these OEM initiatives.

Tesma's current "full service" success is reflected in our diversified worldwide customer base that spans each of the four major automotive markets – North America, Europe, Asia Pacific and South America. In our own powertrain, fueling and cooling product lines, Tesma is a leading "Tier 1" supplier of systems and components for both passenger car and light truck applications. As described on the following pages, we continue to develop and supply highly engineered systems and modules that have been traditionally managed and manufactured by the OEMs themselves.

With these demonstrated capabilities and our focused commitment on **Innovation**, **Engineering** and **Performance**, Tesma is well-positioned to take advantage of the continuing opportunities in the powertrain, fueling and cooling product areas across the global automotive industry.

fuel systems



Fueling and cooling modules offer Tesma significant opportunities to expand beyond current product offerings.

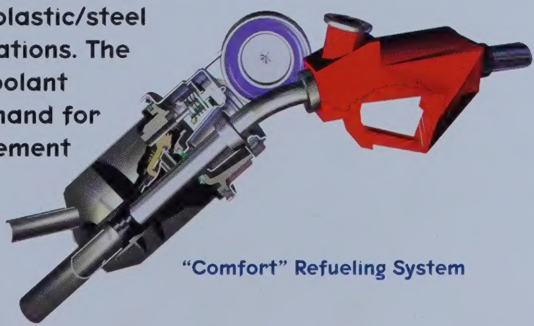
Automated Fuel Cap Assembly Line

As new regulatory requirements, alternative fuels, environmental and recycling issues gain strength, Tesma's growth potential in the fueling and cooling areas is expected to increase through the new product development and manufacturing resources at our Blau Companies.

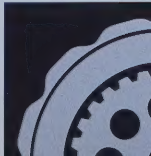
Building on its experience in valve technology, Blau has developed a unique "on-board refueling vapour recovery" (ORVR) system that will be supplied to two European OEMs, with the first commencing later in the 1998 model year. Blau's extensive background in the fuel cap/filler neck business is now evolving into fuel filler modules – higher value added products which encompass all components from the fuel cap to (but not including) the fuel tank. Currently, Blau has been sourced several fuel filler module programs for future European production, including two which integrate its ORVR system technology. Tesma intends to expand Blau's fuel filler module capabilities and production business both in Europe and North America.

In Europe, Blau is positioned as a leader in fueling product developments such as capless or "comfort" and automated refueling systems, sophisticated and technically demanding products which provide opportunities for future growth. The North American operations of Blau are active in the development of products and systems to improve the performance of vehicle coolant systems. Working with advanced plastics and composite materials, Blau is developing various lightweight "water management" components, including thermostat housings, water inlets and outlets and cross-over assemblies. During fiscal 1997, Blau North America completed a production-intent prototype program for an integrated plastic/steel water management system for small-block engine applications. The trend to smaller displacement engines, with increased coolant temperature and pressure requirements, is creating demand for technically advanced cooling products and water management systems.

Tesma believes that Blau's modular and systems approach to the development of advanced fueling and cooling products will result in increased penetration and higher value added sales opportunities in the near term.



"Comfort" Refueling System



Engine systems and modules represent the most advanced aspect of Tesma's modular products strategy.

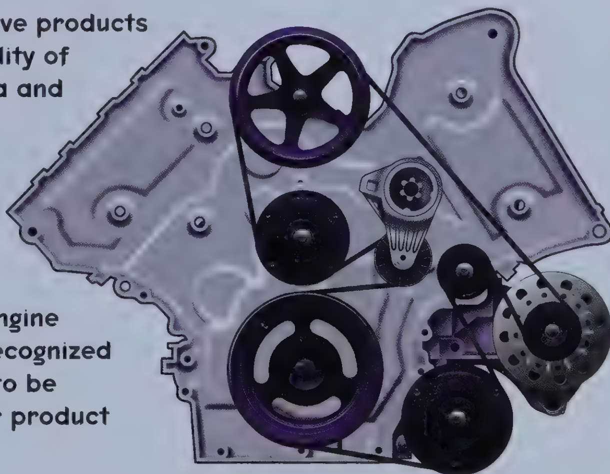
Belt Drive Systems Development Lab

Evolving from our core accessory drive tensioner and pulley businesses, Tesma now offers engine modules capability from the "front of the block" forward that includes:

- oil pumps
- water pumps
- cast aluminum front engine covers
- all pulleys (in steel, phenolic (plastic) and aluminum)
- accessory drive tensioners and idler assemblies
- mechanical timing belt-drive tensioners.

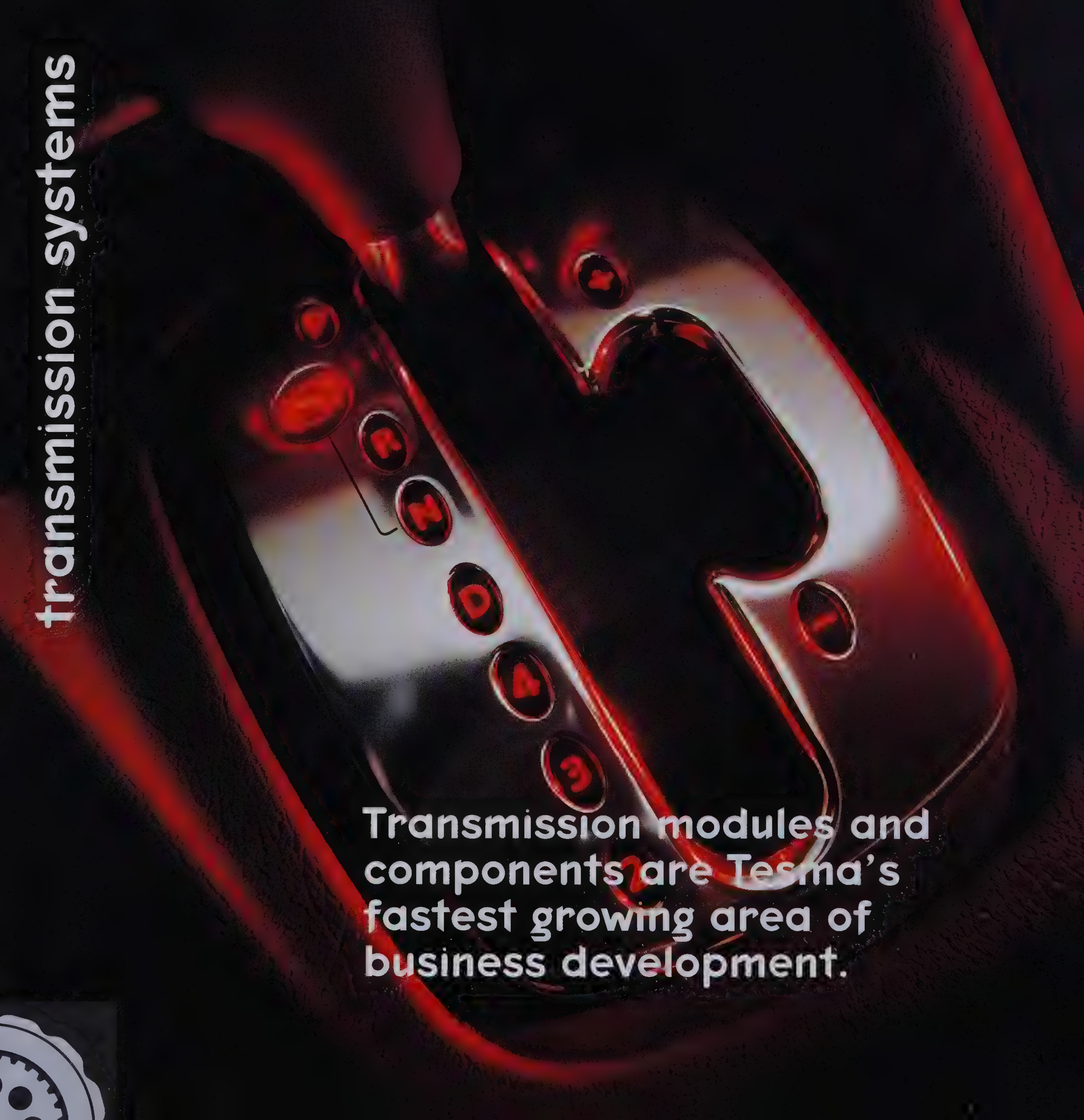
In the engine compartment, Tesma continues to develop discrete products to reduce "noise, vibration and harshness" (NVH) and address other engine performance issues arising from the trend to lightweight, small displacement, high performance engines. These products currently include balance shafts, torsional vibration dampers (multi-function vibration control pulleys), overrunning alternator decoupler assemblies and managed speed accessory drive systems.

Tesma's recognized leadership in accessory drive products and systems supply includes the full service capability of the Litens Automotive Group, both in North America and Europe. During fiscal 1997, Litens was sourced complete accessory drive systems engineering responsibility for two European engine programs, including systems design, development, testing, validation, program management and manufacturing responsibility.



Tesma's knowledge and understanding of the engine and its functional parameters, together with our recognized engineering and manufacturing skills, will continue to be applied to develop innovative systems and modular product offerings in this important product category.

transmission systems



Transmission modules and components are Tesma's fastest growing area of business development.

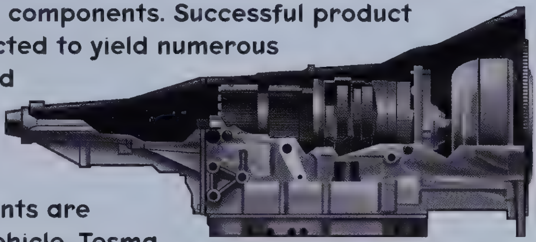
One-piece Flexplates

Utilizing innovative manufacturing processes and technologies, Tesma has been able to develop and manufacture a variety of transmission related components offering significant performance, weight, cost and packaging advantages compared to existing technologies. Examples of Tesma's unique capabilities in this product category include:

- one-piece flexplates
- die-formed clutch hubs and housings
- fineblanked transmission fork assemblies
- die and roll-formed pistons.

Many of the advanced products introduced by Tesma for transmission applications are derived from the metal forming and processing skills developed in our traditional pulley manufacturing facilities. Tesma's transmission systems products often combine multiple parts in a single component and eliminate or reduce costly secondary operations such as machining or assembly.

During fiscal 1997, Tesma secured exclusive rights to proprietary coplanar gear technology and programmable one-way clutch and coupling technology for worldwide automotive applications. These technologies have numerous potential uses in four-wheel drive and all-wheel drive transfer cases, torque converters, transmission clutches, stator members, differential assemblies and other drivetrain components. Successful product development of the one-way clutch technology is expected to yield numerous benefits over existing clutch designs, including improved performance efficiencies, substantial subcomponent reduction and significant weight and packaging advantages.



Historically, transmission assemblies and components are among the lowest levels of outsourced products in a vehicle. Tesma views this traditional lack of outsourcing as a significant growth opportunity, as the OEMs continue to reduce their in-house manufacturing costs. Tesma's modular products strategy for transmissions includes the development of new and unique product applications and manufacturing processes that typically do not directly compete with in-house OEM plants and products. The successful implementation of this strategy will assist in reducing the pressures usually experienced during outsourcing negotiations.

rotational drive/products technology

Accessory Drive Tensioning Systems

The Litens Automotive Group, a global leader in automotive belt tensioning devices and other highly engineered drivetrain products, represents Tesma's Rotational Drive technology.

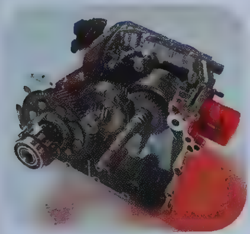
To further support its accessory and timing drive belt tensioner products, during fiscal 1997 Litens expanded its engineering and testing resources, developed new analytical abilities and established a fully-equipped systems development laboratory. These initiatives enable Litens to offer enhanced full service belt drive systems development capabilities and maintain its technical leadership over other competitors.

As an extension of Tesma's modular products strategy and to complement Litens' accessory drive systems capabilities, Tesma will transfer all sales and marketing and systems development resources associated with our Rotational Products technology (automotive engine pulley products) to Litens, commencing in fiscal 1998. This combination of resources augments the full service systems supplier capability of the Litens Automotive Group and creates additional synergies and worldwide growth opportunities for Tesma's traditional pulley products business.

Tesma holds a substantial position in the North American automotive pulley market, producing over 45 million pulleys annually for all engine applications – crankshafts, alternators, power steering pumps, air conditioning compressors and water pumps. In fiscal 1997, Tesma's European pulley business continued to develop, with the commencement of regular exports from North America under previously awarded production contracts. During the year, Tesma also secured our first new pulley business for export to South America.

As part of Tesma's global product strategy, Tesma's pulley divisions are now working with Litens management to evaluate appropriate manufacturing initiatives for the European market. In addition, Litens recently announced the formation of a global strategic alliance with the Engineered Products Division of The Goodyear Tire & Rubber Company focusing on automotive belt-drive systems.

power transfer technology



Transmission System Components

The manufacturing divisions representing Tesma's Power Transfer technology continue to strengthen Tesma's position in the multi-billion dollar market for automotive transmission components and assemblies.

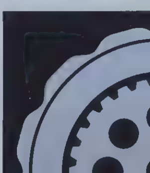
During fiscal 1997, significant new transmission product programs were awarded to Tesma that will ensure continued growth into the next century. Highlights include:

Aluminum Die Casting – Tesma's North American high pressure die casting facility was awarded a number of production contracts that will effectively triple the size of its current business by fiscal 2000. These new product programs go beyond simple castings and include substantial value added machining and assembly operations. Tesma's aluminum casting and machining capabilities were also expanded through the acquisition of Eralmetall GmbH, a gravity and high pressure die caster servicing the European automotive market. This acquisition positions Tesma as one of the few cast aluminum suppliers in the automotive industry with manufacturing facilities in both North America and Europe. During fiscal 1998, Tesma intends to explore new casting and machining technologies, as well as new materials such as magnesium.

Die/Flow-Formed Components – Tesma was awarded two production programs for one-piece clutch housings utilizing our unique forming technology. These housings eliminate machining content and offer significant performance, strength and durability benefits over traditional designs.

One-Piece Flexplates – Tesma was awarded substantial one-piece flexplate (starter gear) business using our proprietary roll-forming technology. This one-piece business, together with our existing two-piece designs, have been consolidated into a dedicated flexplate facility which became operational at the end of fiscal 1997.

Fineblanking – Tesma's precision fineblanking capabilities continued to grow, with an increasing focus on powertrain applications where tight tolerances and uniform surface finishes are critical. During fiscal 1997, Tesma's fineblanking division was directly aligned with our leading transmission components plant to encourage co-operative development opportunities.



liquid transfer technology

Fueling & Cooling Modules

The Blau Companies, suppliers of specialized fueling and cooling products in both Europe and North America, represent Tesma's Liquid Transfer technology.

During fiscal 1997, Blau successfully expanded its existing product lines in Europe to include advanced fuel filler modules – integrated refueling units consisting of the fuel cap, filler inlet and filler pipe or tube, plus, in some applications, Blau's proprietary "on-board refueling vapour recovery" (ORVR) system technology. Designed in Blau's European research and development centre, these fuel filler modules use distinctive thin-walled stainless steel filer tubes which offer superior impact performance, 100% recyclability, the elimination of permeation and compatibility with alternative fuels. With the commencement of mass production supply in January 1998, fuel filler modules represent significantly higher value added content per vehicle over Blau's traditional fuel cap/filler neck assembly products.

Blau continues to develop capless or "comfort" refueling systems – systems where, for ease of use and convenience, the fuel cap is eliminated by re-engineering its functionality into the remaining "on-board" refueling components. The Blau research and development centre in Europe is actively working with several European OEMs on "comfort" refueling system projects for introduction after the turn of the century.

An unexpected situation arose in fiscal 1997, when a U.S. jury found that the fuel cap produced by Blau for a North American OEM customer wilfully infringed the patents of a competitor. The status of this continuing litigation is described elsewhere in this Annual Report (see Management's Discussion and Analysis and Notes to Consolidated Financial Statements).

In the engine cooling product area, Blau was successful, during fiscal 1997, in developing and securing production contracts for "water management" components and assemblies, both in Europe and North America. The award of an integrated thermostat housing program in Europe and a complex cross-over tube and thermostat housing assembly in North America, expands Blau's current market position in this product segment. In fiscal 1998, the North American production of Blau's unique pressure-valved coolant reservoir cap (for sealed radiator systems) will increase significantly, with the commencement of supply to a second OEM customer.

Tesma powertrain modules

Oil Pump & Water Pump Assemblies

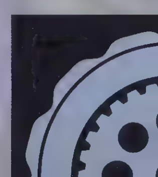
Tesma Powertrain Modules was introduced in fiscal 1996 as the focal point in our modular products strategy for engine and transmission applications.

During fiscal 1997, STT Technologies, a joint venture dedicated to the development of engine and transmission oil pumps using proprietary technology, was awarded an oil pump program for the North American production of a high performance four cylinder global engine program, commencing in fiscal 1999.

Engine water pumps were also identified as important products in our Powertrain Modules strategy, and in fiscal 1997, Tesma was sourced three water pump programs which begin production, on an accelerated basis, over the fiscal 1999 through 2001 period. Two of these programs have forecasted annual volumes in excess of one million units per year, and for one light truck engine application, Tesma has been assigned responsibility for the complete development, engineering, validation and production of the new water pump design. A dedicated production facility for Tesma's water pump business will be established in fiscal 1998, in the Metropolitan Toronto area.

During fiscal 1998, Tesma will continue to dedicate engineering and development resources to the introduction of new Powertrain Modules product offerings. Currently, Tesma is actively working with a North American OEM on the development of a new balance shaft assembly to address vibration issues in a small displacement engine application. Tesma also has a development project with another OEM for a four-wheel/all-wheel drive transfer case utilizing proprietary one-way clutch technology. Subject to further durability testing and refinement, this transfer case development offers enhanced performance and torque capacity in a smaller, lighter and more cost-effective design.

As the OEMs' concerns with emissions, fuel economy, weight, performance and costs continue, the trend towards "better", "smaller" and "lighter" powertrain products will accelerate. Tesma, through our modular products strategy and our **Innovation**, **Engineering** and **Performance** approach to product excellence, is well positioned to benefit and grow from these opportunities in the next generations of automotive engines and transmissions developed around the world.



Rotational Drive/Products Technology

- Accessory Drive Belt Tensioners and Systems
- Engine Timing Drive Belt Tensioners
- Drive Shaft Assemblies
- Idler Assemblies
- Overrunning Alternator Decoupler Assemblies
- Alternator Pulleys
- Crankshaft Pulleys
- Water Pump Pulleys
- Power Steering Pump and Pulley Assemblies
- Phenolic Pulleys
- Aluminum Pulleys
- Air Conditioning Rotors
- Crankshaft Isolators
- Torsional Vibration Dampers

Power Transfer Technology

- One & Two-Piece Flexplates
- Roll-Formed Transmission Components
- Die/Flow-Formed Transmission Components
- Die-Formed Clutch Pistons & Housing
- Fineblanked Components
- Aluminum Die Cast & Machined Components

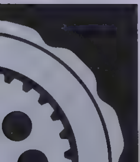
Liquid Transfer Technology

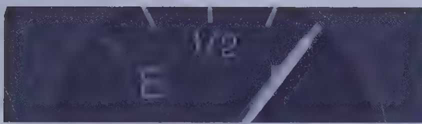
- Fuel Caps
- Fuel Filler Neck Assemblies
- Fuel Filler Modules
- Refueling Vapour Recovery Valves/Systems
- Coolant Reservoir and Radiator Caps
- Oil Caps
- Thermostat Housings
- Coolant Inlet/Outlet Assemblies
- Cross-Over Assemblies
- Water Management Systems
- Encapsulated Metal/Plastic Components

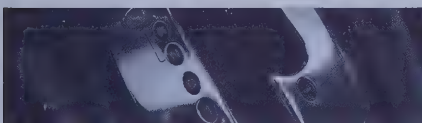
Tesma Powertrain Modules

- Oil Pumps
- Water Pumps
- Integrated Front Engine Covers

innovation • engineering • performance







financial report

management's discussion & analysis of operations & financial position

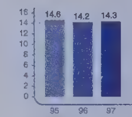
Management's discussion and analysis of operations and financial position should be read in conjunction with the accompanying consolidated financial statements. The fiscal 1996 and 1995 financial statements have been restated to reflect the retroactive adoption of new recommendations (the "Financial Instruments Recommendations") of The Canadian Institute of Chartered Accountants with respect to the presentation and disclosure of financial instruments. Under the Financial Instruments Recommendations, Tesma's Convertible Series Preferred Shares have been reclassified between debt and equity. The resultant discount to the redemption value on the portion classified as debt is being systematically amortized to income until the date when the shares become retractable at the option of the holders. In addition, a portion of the dividends paid on the Convertible Series Preferred Shares is reflected as a return of capital resulting in reductions to the portion classified as equity. The restatement has been made retroactively to July 18, 1995, being the date when the 700,000 Convertible Series Preferred Shares were originally issued.The discussion below with respect to fiscal 1997 and 1996 reflects this adoption of the Financial Instruments Recommendations. Fully diluted earnings per share are not affected in any of the fiscal years. See notes 1, 10 and 11[e] to the consolidated financial statements.

overview

During 1997, Tesma continued to implement its business strategy of capitalizing on existing and emerging trends in the automotive industry and building on its position as a leading supplier across its powertrain, fueling and cooling product lines. Key elements of Tesma's business strategy include: technical innovation through continued emphasis on research and development; focusing on complex, high value added, engineered and proprietary products; capitalizing on strong customer relationships; pursuing international growth opportunities through strategic acquisitions, joint ventures and technology licensing arrangements; and focusing on efficiency improvements and product diversification.

On January 31, 1997, Tesma acquired Eralmetall GmbH ("Eralmetall"), a gravity and high pressure die caster of aluminum products, with its principal manufacturing facility in Germany and a joint venture in France, for $2.5 million. Eralmetall's 1996 consolidated sales were approximately $35.2 million, substantially all of which were within Europe. Its automotive customers include Mercedes, Porsche and other European OEMs. This strategic acquisition complements Tesma's existing Canadian aluminum die casting facility and establishes the Company's aluminum casting and machining capabilities in a second major automotive market.

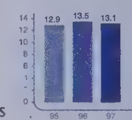
On June 5, 1997, Tesma completed a fully-marketed treasury offering of 3,680,000 Class A Subordinate Voting Shares for total proceeds of $69.0 million. The net proceeds of $66.9 million received by the Company will be used to finance capital expenditures and investments to support new customer contracts, as well as for strategic acquisitions and other growth opportunities. In connection with this offering, Magna International Inc. ("Magna") converted 110,250 Series 3 Convertible Preferred Shares into 1,000,000 Class A Subordinate Voting Shares which were also sold in a simultaneous secondary offering.



north american vehicle production
(millions of units)

Tesma operates in two geographic segments, with its operations substantially all related to the automotive industry. Tesma supplies components, assemblies, modules, systems and tooling to OEM's worldwide from its eighteen manufacturing facilities in Canada and Europe. As the Company follows a corporate policy of functional and operational decentralization, these facilities operate as autonomous units.

To align the Company on a product and processing basis, Tesma's operations are organized in four "core" areas of technological focus: Rotational Drive Technology (the Litens Automotive Group), Rotational Products Technology, Power Transfer Technology and Liquid Transfer Technology (the Blau Group). During 1996, Tesma Powertrain Modules was established to address the emerging OEM trend towards the sourcing of modular products for engine and transmission applications.

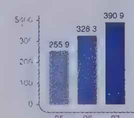


european vehicle production
(millions of units)

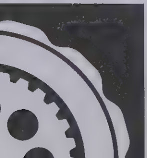
Although Tesma is most significantly affected by its average content per engine or transmission and the levels of North American and European vehicle production, other worldwide vehicle markets are increasing in importance, as exports of Tesma products to customers in Japan, South Korea, Taiwan, Singapore, China, Australia, Brazil, Argentina, Venezuela, South Africa and Israel continue to grow. Passenger car and light truck production volumes for 1997 were 14.3 million units in North America, representing an increase of less than 1/2 of 1% over the prior year. In Europe, vehicle production volumes were 13.1 million units for 1997, a 3% decrease compared to 1996.

results of operations

Sales: Tesma's consolidated sales increased 21% to a record $551.5 million in 1997, compared to $455.6 million in 1996. North American production sales increased 19% to $390.9 million from $328.3 million in 1996 despite only marginal growth in North American vehicle production volumes. The two most significant factors contributing to this increase were higher exports to Europe, South America, Asia Pacific and Australia which contributed 30%, and higher content and penetration of the Company's products



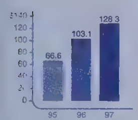
north american production sales
(Canadian $ millions)



management's discussion & analysis of operations & financial position

(continued)

on North American engine and transmission programs which account for the balance. European production sales increased by 24% to $128.3 million from $103.1 million in 1996. The inclusion of the sales of Eralmetall, which was acquired at the beginning of the third quarter, accounted for 63% of this increase, while increased penetration in Europe and export sales contributed the balance. These gains were offset partially by the significant decline in value of the German deutschmark and other European currencies relative to the Canadian dollar.

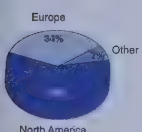


european production sales (Canadian $ millions)

In 1997, the net impact of fluctuations in foreign currencies in which Tesma transacts a significant portion of its business was a decrease in sales of approximately 2%, primarily as a result of the decline in value of the German deutschmark and other European currencies relative to the Canadian dollar. The decrease results primarily from the translation of the results of self-sustaining foreign subsidiaries at lower average exchange rates in 1997 versus 1996 such that all items on the statement of income are affected, but none to the same magnitude as the sales. In 1996, the net effect was an increase of less than 1%.

Tooling sales, an indicator of new business activity and a reflection of Tesma's continued involvement in new customer programs, increased by 34% or $8.2 million to $32.4 million, from $24.2 million in 1996.

Tesma's changing sales mix reflects its increasing global presence, product diversity and vehicle model or "platform" independence. In 1997, sales to Tesma's North American customers decreased from 61% of sales in 1996 to 59% of sales. The value of Tesma's sales to its European customers grew from 33% of sales in 1996 to 34% in 1997. Most significantly, Tesma's exports to other countries increased by 43% to $39.3 million in 1997, and now represent 7% of sales as compared to 6% in 1996. At the same time, Tesma's dependence on its four largest worldwide customers continued to drop in 1997 from 70% of sales a year ago to 69%, and no single engine or transmission program accounted for more than 5% of Tesma's consolidated sales in either 1996 or 1997.

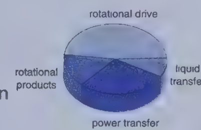


geographic distribution of sales

Rotational Drive Technology's total sales on a proportionately consolidated basis (including intercompany and tooling sales) increased 25% to $266.5 million in fiscal 1997 from $213.8 million in 1996 as a result of increased North American and European penetration and increased export sales. Rotational Drive Technology represents 48% of consolidated sales compared to 47% in 1996.

Power Transfer Technology's total sales of $159.9 million in 1997 increased from $126.3 million in 1996 largely as a result of the commencement of new programs, increased North American penetration and the acquisition of Eralmetall. Power Transfer Technology represents 29% of consolidated sales in 1997 versus 28% in 1996.

Rotational Product Technology's total sales of $83.8 million in 1997 decreased marginally from $85.4 million in 1996, largely as a result of a return to normalized levels of service part orders in 1997. Rotational Product Technology represents 15% of consolidated sales versus 19% in 1996.

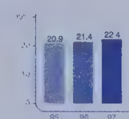


sales by area of focus

Liquid Transfer Technology's total sales of $47.9 million in 1997 increased from $36.4 million in 1996 primarily as a result of the ramp up of new production programs in North America and higher sales in Europe, offset by a reduction in translated sales of European operations as a result of the weakening of the German deutschmark and other European currencies. Liquid Transfer Technology represents 9% of Tesma's consolidated sales versus 8% in 1996.

Tesma Powertrain Modules has not yet commenced commercial production activities in any of its facilities and therefore did not contribute to consolidated sales in 1997.

Gross margin: Gross margin as a percentage of sales improved to 22.4% from 21.4% in 1996. Better capacity utilization, significant improvements in Liquid Transfer's European operations, more favourable raw material pricing and a favourable product mix contributed to this improvement. However, a portion of the gross margin improvement was offset by inefficiencies resulting from the ramp up of new production programs, including the new dedicated flexplate plant which became operational in June 1997, an increase in research and development expenditures, significantly lower margins on Eralmetall's sales, an increase in low margin tooling sales, the decline in value of the German deutschmark and other European currencies relative to the Canadian dollar, and price reductions required under various long-term agreements with OEMs. The competitive environment within the automotive industry has caused OEMs to increase pressure on suppliers for price concessions and the absorption of engineering, design and other costs previously paid for directly by the OEMs. While Tesma has programs in place to offset these required price concessions through improved efficiencies and cost reductions, there can be no certainty that these programs will enable Tesma to successfully respond to future competitive pressures.



gross margin (% of sales)

management's discussion & analysis of operations & financial position

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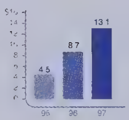


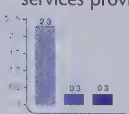
r&d expenditures
(canadian $ millions)

Net research and development expenditures for 1997 were $13.1 million, an increase of 51% over 1996. Tesma's business strategy includes a strong emphasis on research and development activities to continue to refine and develop innovative, highly-engineered products and processing technologies. This focus on technological development helps Tesma maintain its competitive advantage when competing for new and replacement business.

Depreciation and amortization: Depreciation and amortization costs increased from $14.8 million in 1996 to $19.1 million in 1997 (representing 3.5% of sales in 1997 compared to 3.3% in 1996). This increase reflects Tesma's continuing investments in capital equipment to support new production programs and increased depreciation as a result of the Eralmetall acquisition.

S, G & A: Selling, general and administrative expenses increased to $43.6 million (7.9% of sales) in 1997 from $33.9 million (7.4% of sales) in 1996. Contributing to the increase were the consolidation of the selling, general and administrative expenses of Eralmetall, the Powertrain Modules Group and the new flexplate facility, increased incentive based compensation (including the Tesma employee equity participation and profit sharing program (Tesma EPSP)), higher costs incurred to support Tesma's "full service supplier" commitments, costs incurred in connection with the QS9000 certification efforts of Tesma's North American manufacturing facilities, increased costs incurred as a result of the realignment and expansion of Tesma's international sales and engineering offices to service the Company's geographically diverse customer base, and legal and litigation costs associated with Tesma's defence in the fuel cap patent infringement litigation.

Affiliation fees and other charges: Tesma is obligated to pay fees for certain rights and services provided by Magna under the terms of an affiliation agreement which expired on July 31, 1997. These fees are based on specified percentages of Tesma's adjusted sales and pretax profits, and include other charges for specific services rendered. The fees and charges paid to Magna in 1997 were $11.6 million compared to $10.0 million in 1996 as a result of higher sales and pretax profits. Effective August 1, 1997, under the terms of a revised five year agreement, the affiliation fees will be computed solely as 1% of Tesma's reported consolidated net sales. Other fees and charges will continue to be negotiated annually and will be based on the level of benefits or services provided by Magna to the Company.

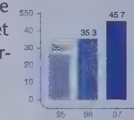


interest expense
(Canadian $ millions)

Interest expense: Interest expense was unchanged at $0.3 million (net of interest income of $0.5 million) in 1997. Interest income was earned on cash balances which arose from the net proceeds received on the closing of Tesma's treasury offering of Class A Subordinate Voting Shares in June 1997 and cash generated from operations throughout the year. Interest on long-term debt was $0.8 million in both 1997 and 1996 and primarily relates to Liquid Transfer's European facilities in both years.

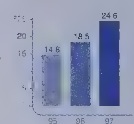
Amortization of discount on Convertible Series Preferred Shares: As a result of the retroactive adoption of the Financial Instruments Recommendations, Tesma's amortization of the discount on the portion of the Convertible Series Preferred Shares classified as debt was $3.1 million in 1997 versus $3.0 million in 1996.

Operating income: Income before income taxes increased by 30% to $45.7 million in 1997 from $35.3 million in 1996. The $26.0 million increase in gross margin was partially offset by the increase in S, G & A costs, depreciation and amortization and affiliation fees and other charges. Tesma's North American operations contributed $39.0 million or 85% of consolidated income before income taxes versus $34.7 million or 98%, respectively, in 1996. The European operations contributed $6.7 million in 1997 versus only $0.6 million a year ago.



operating income
(Canadian $ millions)

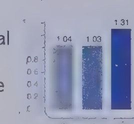
Income taxes: Tesma's effective income tax rate decreased to 42.1% in 1997, compared to 44.8% in 1996. Tesma's tax rates exceeded expected Canadian income tax rates as a result of the non-deductible amortization of the discount on the Convertible Series Preferred Shares, higher foreign tax rates and losses in certain Austrian and German subsidiaries which have not been tax benefitted. The decline in the rate from 1996 is primarily the result of reduced losses at certain of Tesma's Austrian subsidiaries which have not been tax benefitted.



net income attributable to class a & b shares
(Canadian $ million)

Net income: Net income for 1997 increased by 36% to $26.5 million, compared to $19.5 million in 1996 as a result of the higher operating income and lower effective income tax rate. The deduction from net income of dividends declared and paid on the Convertible Series Preferred Shares (net of a return of capital) of $1.9 million in 1997 versus $1.0 million a year ago resulted in net income attributable to Class A Subordinate Voting Shares and Class B Shares of $24.6 million, an increase of 33% over the $18.5 million reported in 1996.

Earnings per share: On a fully diluted basis, earnings per Class A Subordinate Voting or Class B Share increased 24% to $1.13 from $0.91 in 1996, despite a 6% increase in the fully diluted weighted average number of shares outstanding for fiscal 1997 to 26.6 million from 25.1 million in 1996. Basic earnings per Class A Subordinate Voting or Class B Share was $1.31 in 1997 versus $1.03 in 1996, an increase of 27%, again despite an increase in the basic weighted average number of outstanding shares by 4% to 18.8 million from 18.0 million in 1996.



basic earnings per share
(canadian $)

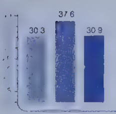
management's discussion & analysis of operations & financial position

(continued)

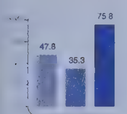
Patent infringement litigation: In July 1997, a verdict was returned against the Company by a U.S. jury following a patent infringement claim filed by Stant Manufacturing Inc. ["Stant"] in September 1996. The jury found that a particular fuel cap produced by the Company wilfully infringed three U.S. patents owned by Stant. A separate jury trial to determine damages is expected to occur in October 1997. As the final outcome of this claim is uncertain, and the potential effect, whether material or not, on the Company's consolidated financial position is not reasonably determinable, no provision was recorded in the accounts of the Company as at July 31, 1997. See note 18 [a] to the consolidated financial statements.

financial condition, liquidity and capital resources

Cash flow from operations: During 1997, Tesma's cash from operating activities before changes in non-cash working capital increased by $13.6 million to $53.3 million, as compared to $39.7 million in 1996. This increase is a result of the increase in net income and non-cash expenses, primarily depreciation and deferred taxes. Cash invested in non-cash working capital during 1997 increased by $20.3 million over 1996 primarily as a result of increased accounts receivable to support the larger base of sales. Overall, cash flow from operations for 1997 was $30.9 million, a decrease of $6.7 million from 1996. Cash balances at July 31, 1997, net of bank indebtedness, were $68.3 million versus $28.6 million a year earlier. The high cash balances in 1997 are primarily a result of the Company's treasury offering of Class A Subordinate Voting Shares which was completed in the fourth quarter of 1997.



cash flow from operations
(canadian $ millions)



cash balances
(canadian $ millions)

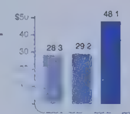
Foreign currency activities: Tesma negotiates sales contracts with North American OEMs in both Canadian and U.S. dollars. Materials and equipment are purchased in various currencies depending upon competitive factors, including relative currency values. Tesma's current Canadian production (approximately 75% of consolidated sales) uses primarily Canadian labour and materials which are paid for in Canadian dollars. Tesma's Canadian production sales are invoiced and paid for substantially in Canadian dollars, U.S. dollars and German deutschmarks.

Tesma's European sales contracts with European OEMs are principally negotiated in German deutschmarks. Materials, equipment and labour are paid for principally in German deutschmarks or Austrian schillings, a currency which historically has had a relatively stable rate of exchange to the German deutschmark.

A portion of Tesma's foreign currency inflows, which result from the Company's commitment to deliver products for which the selling price has been quoted in a foreign currency, are naturally hedged through the purchase of materials and capital equipment denominated in these currencies. In an effort to manage the remaining exposure, Tesma employs hedging programs primarily through the use of foreign exchange forward contracts that extend for periods of up to five years.

The amount and timing of the forward contracts is dependent upon anticipated production and delivery schedules and anticipated payment dates. Tesma is exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts, but mitigates this risk by dealing with only those counterparties considered to be high quality credits. Despite these measures, significant long-term movements in relative currency values could affect Tesma's results of operations. In particular, Tesma's results of operations may be adversely affected by a strengthening of the Canadian dollar against the U.S. dollar. In addition, Tesma does not hedge the business activities of self-sustaining foreign subsidiaries, and accordingly, Tesma's results of operations could be further affected by a significant change in the value of the Canadian dollar against the German deutschmark.

Investment activities: Capital and investment spending totalled $49.8 million (net of proceeds from dispositions) in 1997, compared to $29.3 million in 1996. Additions to fixed assets increased by 65% to $48.1 million in 1997 ($29.2 million in 1996). Other investment spending in fiscal 1997 included the $2.5 million paid to acquire Eralmetall. Capital spending on fixed assets in 1997, which was largely in support of new production contracts and the acquisition of manufacturing facilities, was funded primarily from cash on hand at the beginning of the year and cash generated from operations during the year. Capital spending in 1998 is expected to be in the range of $57 million, primarily to support newly awarded production contracts, manufacturing facilities, required maintenance improvements and other process related expenditures. Management believes that cash balances on hand, existing unutilized credit facilities, and internally generated funds from operations will be sufficient to meet all planned capital requirements.



fixed asset additions
(canadian $ millions)

Financing activities: In June 1997 the Company issued, through a public offering, 3,680,000 Class A Subordinate Voting Shares for net proceeds, after deducting underwriting fees and related expenses, of $66.9 million. These proceeds will be used to advance Tesma's growth strategy for the future, with approximately $50 million allocated to capital expenditures and investments in technologies to support new product and production contracts, and the balance used for working capital and other general corporate purposes, including strategic acquisitions and other related investments. In conjunction with this public offering, Magna converted 110,250 of its Series 3 Convertible Preferred Shares into 1,000,000 Class A Subordinate Voting Shares, at a rate of $11.025 per share, reducing the portion of the Convertible Series

management's discussion & analysis of operations & financial position (continued)

Preferred Shares reflected as debt on Tesma's balance sheet by $9.9 million.

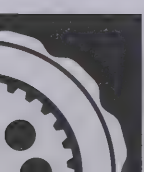
In addition, during the first quarter of 1997, 159,920 Class A Subordinate Voting Shares were issued from treasury to the trustee of the Tesma deferred profit sharing plan in respect of a $1.7 million funding obligation of the Company to the Tesma EPSP.

Cash provided by operating activities and proceeds from the issuance of Class A Subordinate Voting Shares upon the exercise of options under Tesma's amended and restated stock option plan were used to reduce net long-term and other indebtedness in the amount of $0.9 million and to pay dividends on the Convertible Series Preferred Shares, Class A Subordinate Voting Shares and Class B Shares in the amount of $8.5 million.

Dividends: Tesma's Corporate Constitution requires the payment of dividends of at least 10% of after-tax profits (after providing for any preference share dividends) for each of the years ended July 31, 1996 and 1997. Although the minimum dividend required for 1997 was $2.5 million, the Company has declared dividends on its Class A Subordinate Voting and Class B Shares in the amount of $4.1 million (20 cents per share). Dividends paid have been financed out of cash flow from operations.

1998 outlook

Management expects worldwide production of vehicles to approximate 53 million units in 1998, with primary growth in emerging markets. North American production is expected to decline by approximately 3%, while production in Europe is anticipated to increase in the range of 5%. As a result of secured contracts commencing in 1998, anticipated increased outsourcing by the OEM's in the powertrain area, requirements for global sourcing, increased exports and increased development work which should lead to production contracts, management anticipates, without making assurances as to future results, continued growth in sales and earnings into the immediate future.



management's responsibility for financial reporting

Tesma's management is responsible for the preparation and presentation of the consolidated financial statements and all other information in this Annual Report. The consolidated financial statements were prepared by management in accordance with generally accepted accounting principles, and, where appropriate, reflect estimates based upon the judgement of management. Where alternative accounting methods exist, management has selected those that it considered to be the most appropriate in the circumstances. Financial information presented elsewhere in this Annual Report has been prepared by management on a basis consistent with the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of Tesma.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable, and that Tesma's assets are appropriately accounted for and adequately safeguarded.

Tesma's Audit Committee is appointed by the Board of Directors and is completely comprised of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent Auditors' Report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its finding to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders of Tesma. The Auditors' Report outlines the nature of their examination and their opinion on Tesma's consolidated financial statements. The independent auditors have full and unrestricted access to the Audit Committee.

Toronto, Canada
September 12, 1997

Anthony E. Dobranowski
Executive Vice President
and Chief Financial Officer

James L. Moulds
Controller

auditors' report

To the Shareholders of **Tesma International Inc.**

We have audited the consolidated balance sheets of **Tesma International Inc.** as at July 31, 1997 and 1996 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended July 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended July 31, 1997 in accordance with accounting principles generally accepted in Canada.

Ernst & Young

Toronto, Canada,
September 12, 1997.

Chartered Accountants

significant accounting policies

basis of presentation

The consolidated financial statements have been prepared in Canadian dollars following accounting policies generally accepted in Canada. These policies are also in conformity, in all material respects, with accounting policies generally accepted in the United States except as described in Note 19 to the consolidated financial statements.

principles of consolidation

The consolidated balance sheets as at July 31, 1997 and 1996 give effect to the corporate reorganization which occurred July 18, 1995 whereby Tesma International Inc. [the "Company"] acquired from its parent company, Magna International Inc. ["Magna"], Magna's 55% interest in Blau Autotec Inc. ["Blau North America"] and 45% interest in Blau International Ges.m.b.H ["Blau Europe"] in exchange for 254,256 Class B Shares of the Company. In addition, the Company issued promissory notes in the amount of $9.2 million in exchange for Magna's advances to Blau North America and Blau Europe [the "Blau Companies"]. As these transactions are among companies under common control, they have been accounted for in a manner similar to a pooling of interests which recognizes the continuity of ownership interest which continues to exist. Accordingly, the results of Blau North America have been consolidated with the accounts of the Company from commencement of operations in July 1993, and the 45% interest in Blau Europe has been accounted for on the equity basis from the date of acquisition by Magna in 1993. On July 31, 1995, the Company acquired the remaining interests in Blau North America and Blau Europe as further described in Note 4[b] and the Company, Tesma Manufacturing Inc. [a wholly-owned subsidiary] and Blau North America amalgamated and continued to operate as Tesma International Inc.

The Company accounts for its 76.77% interest in the Litens Automotive Partnership ["LAP"] and its subsidiaries, and its 45% interest in STT Technologies Inc. ["STT"] which was formed on May 21, 1996 using the proportionate consolidation method as the Company has joint control of both of these ventures. The Company accounts for its investments in which it has significant influence on the equity basis.

management's estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

cash

Cash includes cash on account, demand deposits and short-term investments with original maturities of three months or less. Cost approximates fair value.

inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead.

fixed assets

Fixed assets are recorded at historical cost, including interest capitalized on construction in progress, less related investment tax credits and government grants.

Depreciation is provided on a straight-line basis over the estimated useful lives of fixed assets at annual rates of 2 1/2% to 5% for buildings, 7% to 10% for general purpose equipment and 10% to 30% for special purpose equipment.

goodwill

Goodwill, which is the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions, is amortized over periods not exceeding 40 years. Goodwill is evaluated in each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses including profitability projections and undiscounted future cash flows.

revenue recognition

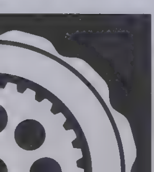
Revenue from sales of manufactured products is recognized upon shipment to customers.

government financing

The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred. The Company also receives loans which are recorded as liabilities in amounts equal to the cash received.

research and development

The Company carries out various applied research and development programs, certain of which are partially or fully funded by government or by customers of the Company. Funding received is accounted for using the cost reduction approach. Research costs are expensed as incurred.



foreign exchange

Assets and liabilities of foreign subsidiaries and investees, all of which are self-sustaining, are translated using the exchange rate in effect at the end of the year and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these foreign subsidiaries and investees are deferred as a separate component of shareholders' equity. The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Company's investment in these subsidiaries and investees as a result of capital transactions.

Foreign exchange gains and losses on transactions during the year are reflected in income except for gains and losses on foreign exchange forward contracts used to hedge specific future commitments in foreign currencies. Gains or losses on these contracts are accounted for as a component of the related hedged transaction.

income taxes

The Company follows the deferral method of tax allocation in accounting for income taxes. Under this method, timing differences between accounting and taxable income result in the recording of deferred income taxes.

Investment tax credits relating to fixed asset purchases and research and development expenses are accounted for as a reduction of the cost of such assets and expenses, respectively.

Income taxes related to retained earnings of foreign subsidiaries are not provided for by the Company, as such earnings are considered to be indefinitely reinvested in foreign operations.

change in accounting for financial instruments

Effective in fiscal 1997, the Company was required to retroactively adopt new recommendations of The Canadian Institute of Chartered Accountants with respect to the presentation and disclosure of financial instruments. Under this new accounting policy, the Company's Convertible Series Preferred Shares have been reclassified between debt and equity. The resultant discount to the redemption value on the portion classified as debt must be systematically amortized to income until the date the shares become retractable at the option of the holders. In addition, a portion of any dividends paid on the Convertible Series Preferred Shares will be reflected as a return of capital resulting in a reduction of the portion of the instrument classified as equity.

consolidated balance sheets

	Note	As at July 31, 1997	1996
		[Canadian dollars in thousands]	
ASSETS			
current			
Cash		$ 75,810	$ 35,264
Accounts receivable	5	74,039	57,429
Inventories	6	42,918	44,096
Prepaid expenses and other		6,895	4,654
Income taxes receivable		1,420	
Accounts receivable from related companies	17	1,638	1,431
		202,720	142,874
Investments	4	1,141	542
Fixed assets	4,7	138,442	107,078
Other assets	4,5	7,192	7,927
		$ 349,495	$ 258,421
LIABILITIES AND SHAREHOLDERS' EQUITY			
current			
Bank indebtedness	9	$ 7,469	$ 6,623
Accounts payable		35,118	30,609
Accrued salaries and wages		14,448	11,362
Other accrued liabilities		20,314	15,919
Income taxes payable	8		2,798
Accounts payable to related companies	17	2,061	2,362
Long-term debt due within one year	4,9	4,549	3,310
		83,959	72,983
Long-term debt	4,9	13,358	15,934
Deferred income taxes	8	20,050	22,019
Convertible Series Preferred Shares	10	57,197	64,055
SHAREHOLDERS' EQUITY			
Convertible Series Preferred Shares	10	2,596	6,428
Class A Subordinate Voting Shares	11	116,413	36,593
Class B Shares	2,11	2,583	2,583
Retained earnings		55,721	34,953
Currency translation adjustment	13	(2,382)	2,873
		174,931	83,430
		$ 349,495	$ 258,421

Commitments and contingencies *[notes 4, 9 and 18]*

See accompanying notes

On behalf of the Board:

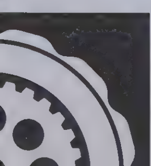
Director Director

Tesma International Inc. **incorporated under the laws of Ontario**

consolidated statements of income & retained earnings

	Note	Years ended July 31 1997	1996	1995
		[Canadian dollars in thousands, except per share figures]		
Sales	17	$ 551,518	$ 455,580	$ 344,908
Cost of goods sold	17	428,151	358,202	272,727
Depreciation and amortization		19,058	14,829	9,062
Selling, general and administrative		43,609	33,940	22,216
Interest [net]	9,17	335	343	2,316
Amortization of discount on Convertible Series Preferred Shares	10	3,052	2,988	104
Affiliation fees and other charges	17	11,596	9,991	7,567
Equity loss	2			4,486
Income before income taxes and minority interest		45,717	35,287	26,430
Income taxes	8	19,239	15,792	12,029
Minority interest	2			(406)
Net income		26,478	19,495	14,807
Dividends on Convertible Series Preferred Shares [net of return of capital]	10	(1,864)	(956)	
Net income attributable to Class A Subordinate Voting Shares and Class B Shares		24,614	18,539	14,807
Retained earnings, beginning of year		34,953	19,105	34,400
Reduction in stated capital of Class B Shares	11			17,917
Dividends	11	(3,846)	(2,691)	(48,019)
Retained earnings, end of year		$ 55,721	$ 34,953	$ 19,105
Earnings per Class A Subordinate Voting Share or Class B Share				
Basic	11	$ 1.31	$ 1.03	$ 1.04
Fully diluted	11	$ 1.13	$ 0.91	$ 1.03
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year [in millions]				
Basic	11	18.8	18.0	14.2
Fully diluted	11	26.6	25.1	14.5

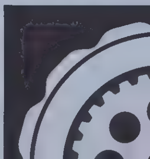
See accompanying notes



consolidated statements of cash flows

	Note	1997	1996	1995
		Years ended July 31 [Canadian dollars in thousands]		
CASH PROVIDED FROM (USED FOR):				
operating activities				
Net income		$ 26,478	$ 19,495	$ 14,807
Items not involving current cash flows	15	26,815	20,183	14,486
		53,293	39,678	29,293
Net change in non-cash working capital	15	(22,386)	(2,054)	959
		30,907	37,624	30,252
investing activities				
Fixed asset additions		(48,052)	(29,175)	(28,318)
Increase in investments and other	2,4	(1,802)	(1,142)	(2,922)
Purchase of subsidiaries	4	(2,549)		(8,170)
Proceeds from disposition of fixed assets and other		2,620	1,041	664
		(49,783)	(29,276)	(38,746)
financing activities				
Repayment (issue) of notes receivable from employees	5	543	551	(1,182)
Increase (decrease) in bank indebtedness		(104)	(3,272)	2,522
Issues of long-term debt	4,9	1,915	94	
Repayments of long-term debt	9	(3,300)	(1,955)	(1,131)
Repayments of debt due to Magna, net	2,9		(9,944)	(20,843)
Proceeds on issuance of Convertible Series Preferred Shares	10			70,000
Conversion of Convertible Series Preferred Shares	10	(9,910)		
Class A Subordinate Voting Shares issued on acquisition of subsidiaries	4,11			7,761
Issuance of Class A Subordinate Voting Shares, net of related costs	11	78,799	(95)	28,927
Increase in Class B Shares	2,11			335
Issuance of Class B Shares	11			17,917
Dividends on Class A Subordinate Voting Shares and Class B Shares	11	(3,846)	(2,691)	(48,019)
Dividends on Convertible Series Preferred Shares	10	(4,675)	(3,565)	
		59,422	(20,877)	56,287
Net increase (decrease) in cash during the year		40,546	(12,529)	47,793
Cash, beginning of year		35,264	47,793	–
Cash, end of year		$ 75,810	$ 35,264	$ 47,793

See accompanying notes



notes to consolidated financial statements

1. significant accounting policies

The significant accounting policies followed by the Company are set out under "Significant Accounting Policies" preceding these consolidated financial statements.

2. basis of presentation

The consolidated financial statements presented for the years ended July 31, 1997, 1996 and 1995 give effect to the July 18, 1995 corporate reorganization outlined under "Significant Accounting Policies". Having given effect to such reorganization, cash funding to and the investments in Blau North America and Blau Europe have been reflected through increases in the following for the periods preceding July 18, 1995:

	Class B Shares	Debt due to Magna	Total
	[Canadian dollars in thousands]		
Opening balance, August 1, 1993	$ 273	$ 4,452	$ 4,725
Year ended July 31, 1994	875	497	1,372
	1,148	4,949	6,097
Period ended July 17, 1995	335	4,210	4,545
	$ 1,483	$ 9,159	$ 10,642

These consolidated financial statements include the results of Blau North America from commencement of operations in July 1993. The impact of such inclusion on the Company's operating results was to increase sales by $0.9 million for the year ended July 31, 1995 and to decrease income before income taxes and minority interest by $3.3 million for the year ended July 31, 1995. These consolidated financial statements also reflect the Company's equity loss in the results of Blau Europe from the date of acquisition by Magna in 1993 until July 31, 1995 and, thereafter, the results of Blau Europe are fully consolidated.

3. joint ventures

The Company has ownership interests in the following joint ventures which are accounted for using the proportionate consolidation method:

	1997	1996	1995
STT	**45%**	45%	—
LAP	**76.77%**	76.77%	76.77%

The consolidated financial statements include the Company's proportionate share of the revenues, expenses, assets and liabilities of its joint ventures as follows:

Results of operations	**1997**	1996	1995
	[Canadian dollars in thousands]		
Sales	**$ 266,480**	$ 213,809	$ 184,909
Cost of goods sold	**205,280**	166,032	143,736
Other expenses	**41,259**	31,709	26,747
Net income, after tax allocation	**$ 19,941**	$ 16,068	$ 14,426

Financial Position	**1997**	1996
	[Canadian dollars in thousands]	
ASSETS		
Current assets	**$ 64,245**	$ 58,079
Long-term assets	**19,196**	16,606
Total assets	**$ 83,441**	$ 74,685
LIABILITIES AND EQUITY		
Current liabilities	**$ 27,574**	$ 31,963
Loans from partners	**16,217**	16,217
Long-term liabilities		377
Equity *[i]*	**39,650**	26,128
Total liabilities and equity	**$ 83,441**	$ 74,685

Changes in Financial Position	**1997**	1996	1995
	[Canadian dollars in thousands]		
Cash provided from (used for):			
Operating activities	**$ 19,098**	$ 24,247	$ 24,158
Investing activities	**(7,550)**	(5,109)	(4,634)
Financing activities *[ii]*	**(10,948)**	(19,762)	(12,132)
	$ 600	$ (624)	$ 7,392

[i] Included in equity are undistributed earnings of $32.6 million [1996 - $16.4 million].

[ii] Included in cash flow from financing activities is a net cash distribution to the Company of $12.6 million for the year ended July 31, 1997 [1996 - $15.8 million; 1995 - $14.3 million].

Pursuant to agreements amongst the partners of LAP, the net income of LAP is to be distributed annually to the partners and each partner is required to loan back to LAP approximately 35% of such distribution, unless otherwise determined by the management committee of LAP. No amounts were required to be loaned back to LAP during the years ended July 31, 1997, 1996 or 1995. The management committee is responsible for overseeing and directing the operations and management of LAP and is comprised of four members of which the Company is entitled to appoint two.

The repayment of LAP partners' capital of $7.4 million [1996 - $7.4 million] and loans are subject to the approval of the management committee. At July 31, 1997, the restricted net assets of LAP, after tax allocations, were $41.6 million [1996 - $35.8 million].

During 1997, pursuant to agreements amongst the shareholders of STT, the Company acquired an additional 1,200 Series 1 Preferred Shares of STT at a price of $1,000 per share. Under these agreements the Company is also required to subscribe and pay for an additional 300 Series 1 Preferred Shares at a subscription price of $1,000 per share prior to July 31, 1998.

4. business acquisitions

[a] fiscal 1997 acquisition

On January 31, 1997 the Company completed the acquisition of 100% of the outstanding shares and shareholder advances of Eralmetall GmbH ["Eralmetall"], a German aluminum die and gravity mould caster, which consists of two manufacturing facilities in Germany and an equity interest in a French manufacturing facility. The total purchase price was $2.5 million, of which $1.2 million was paid on closing and the balance, accruing interest at 4% per annum, is payable as follows: $0.1 million on February 1, 1999; and $1.2 million on February 1, 2000. The acquisition was accounted for using the purchase method of accounting. The results of operations are included in the Company's consolidated financial statements from the date of acquisition and the net effect of the transaction is as follows:

	[Canadian dollars in thousands]
Non-cash working capital	$ (5,993)
Fixed assets	11,167
Investments and other assets	1,911
Bank indebtedness	(914)
Long-term debt [including portion due within one year]	(3,622)
Net assets acquired and total purchase price	$ 2,549

If the acquisition had occurred on August 1, 1996, the unaudited proforma sales of the Company for fiscal 1997 would have been $568.6 million and the net income would have been reduced by $2.0 million.

[b] fiscal 1995 acquisitions

During 1995, the Company acquired the Blau Companies consisting of three manufacturing operations, one each in Canada, Germany and Austria, as follows:

[i] On July 18, 1995, the Company acquired Magna's 45% interest in Blau Europe, its 55% interest in Blau North America and its advances to the Blau Companies in exchange for 254,256 Class B Shares of the Company and promissory notes in the amount of $9.2 million. This transaction has been accounted for in a manner similar to a pooling of interests as discussed in Notes 1 and 2.

[ii] On July 31, 1995, the Company completed its acquisition of the Blau Companies by purchasing the remaining 45% interest in Blau North America and 55% interest in Blau Europe, together with certain advances totaling $5.4 million, from Wahlheim Capital Inc. (formerly 983743 Ontario Limited) in exchange for 739,155 Class A Subordinate Voting Shares of the Company having a fair value of $7.8 million and the payment of $0.4 million in cash. The Company has accounted for this transaction using the purchase method of accounting. Goodwill of $5.0 million arising from the transaction has been reflected in other assets on the consolidated balance sheet as at July 31, 1995 and is being amortized on a straight-line basis over a period of ten years. The net effect of this transaction on the 1995 consolidated balance sheet was as follows:

	[Canadian dollars in thousands]
Non-cash working capital	$ 4,806
Fixed assets	20,163
Investments and other assets	358
Deferred income taxes	2,400
Bank indebtedness	(5,926)
Long-term debt [including portion due within one year]	(18,620)
Net assets acquired	3,181
Goodwill upon acquisition	4,989
Total purchase price	$ 8,170

If the Company's acquisition of the Blau Companies had occurred on the date Wahlheim Capital Inc. originally acquired its interests in the Blau Companies, unaudited pro forma sales of the Company would have been $379.1 million in 1995 and the net income of the Company would have been reduced by $6.0 million.

Under the terms of the acquisition from Wahlheim Capital Inc., the Company agreed to pay an additional amount to Wahlheim Capital Inc. equal to 50% of the aggregate combined net income less the aggregate combined net losses of the Blau Companies in respect of the five-year period commencing July 1, 1993, subject to certain adjustments. No such earnout payment

will be made if the aggregate combined net losses of the Blau Companies exceed their aggregate combined net income for the five-year period. As at July 31, 1997 no amounts had been paid or were owing.

5. notes receivable

To assist employees in the purchase of Class A Subordinate Voting Shares offered through the Company's initial public offering in 1995, the Company provided non-interest bearing loans to qualifying employees who acquired not less than 100 nor more than 200 of such shares. The loans are evidenced by promissory notes and are being repaid by payroll deduction over a maximum thirty month period.

Of the total notes receivable of $0.2 million [1996 - $0.6 million], the portion receivable within one year of $0.2 million at July 31, 1997 [1996 - $0.5 million] has been classified as accounts receivable and the balance is included in other assets.

6. inventories

Inventories consist of:

	1997	1996
	[Canadian dollars in thousands]	
Raw materials and supplies	**$ 15,177**	$ 17,478
Work-in-process	**9,611**	9,958
Tooling	**4,986**	3,096
Finished goods	**13,144**	13,564
	$ 42,918	$ 44,096

7. fixed assets

Fixed assets consist of:

	1997	1996
	[Canadian dollars in thousands]	
Land	**$ 9,054**	$ 5,330
Buildings *[i]*	**31,706**	21,606
Machinery and equipment *[i]*	**185,944**	153,984
	226,704	180,920
Accumulated depreciation *[ii]*	**88,262**	73,842
	$138,442	$107,078

[i] The cost of certain fixed assets has been reduced by government grants in the amount of $1.3 million [1996 - $1.8 million]. The grants are payable to the Company on spending the required amount for the acquisition of fixed assets. Under the terms and conditions of the grants, a subsidiary of the Company is also required to maintain specified levels of employment through the year 2000, and the Company is required to maintain a minimum level of equity or subordinated shareholder debt in the subsidiary.

[ii] Accumulated depreciation includes $4.9 million for buildings [1996 - $3.9 million] and $83.4 million for machinery and equipment [1996 - $70.0 million].

8. income taxes

[a] The provision for income tax expense differs from the expense that would be obtained by applying Canadian statutory rates [federal and provincial combined] as a result of the following:

	1997	1996	1995
Canadian statutory income tax rate	**44.6%**	44.6%	44.5%
Manufacturing and processing profits deduction	**(9.0)**	(9.0)	(9.0)
Expected income tax rate	**35.6**	35.6	35.5
Amortization of discount on Convertible Series Preferred Shares	**2.4**	3.0	0.1
Foreign rate differentials	**2.2**	0.3	5.2
Losses of equity investees			6.0
Losses of subsidiaries not tax benefitted	**1.5**	4.3	
Other	**0.4**	1.6	(1.3)
Effective income tax rate	**42.1%**	44.8%	45.5%

[b] The details of the income tax provision are as follows:

	1997	1996	1995
	[Canadian dollars in thousands]		
Current provision			
Canadian federal taxes	**$ 7,690**	$ 7,486	$ 4,731
Provincial taxes	**4,635**	4,284	3,044
Foreign taxes	**4,624**	2,935	4,146
	16,949	14,705	11,921
Deferred provision			
Canadian federal taxes	**2,002**	1,290	67
Provincial taxes	**1,221**	787	41
Foreign taxes	**(933)**	(990)	
	2,290	1,087	108
	$ 19,239	$ 15,792	$ 12,029

[c] Deferred income taxes have been provided on timing differences which consist of the following:

	1997	1996	1995
	[Canadian dollars in thousands]		
Tax deferred income	**$ 1,407**	$ 635	$ 1,695
Tax depreciation in excess of book depreciation	**753**	1,496	58
Other	**130**	(1,044)	(1,645)
	$ 2,290	$ 1,087	$ 108

[d] Income taxes paid in cash were $21.9 million for 1997 [1996 - $9.7 million; 1995 - $5.2 million].

[e] At July 31, 1997, certain subsidiaries of the Company have tax loss carryforwards, in various jurisdictions, of approximately $25.9 million. Of these losses, $25.7 million have no expiry date and $0.2 million expire in 2003 and 2004. The tax benefits of $18.1 million of these losses have not been recognized in the consolidated financial statements.

9. debt and commitments

[a] The Company's long-term debt consists of the following:

	1997	1996
	[Canadian dollars in thousands]	
Loans from governments [non-interest bearing]	**$ 1,438**	$ 2,614
Loan from government [bearing interest at 3%, repayable on June 30, 2000]	**295**	90
Holdback on purchase of subsidiary *[Note 4[a]]*	**1,340**	
Bank term debt	**14,834**	16,540
	17,907	19,244
Less amount due within one year	**4,549**	3,310
	$ 13,358	$ 15,934

[b] Bank term debt consists of:

[i] Term debt of $5.5 million [AS 52.5 million] [1996 - $8.5 million (AS 64.2 million)] advanced under a total line of $5.5 million. The interest on this debt was 4% per annum until June 30, 1996, at which time the rate was adjusted to 5%. For all future periods interest is payable quarterly in advance and the rate is based on the SMR (Secondary Market Rate of Industry Bonds) but cannot exceed 6% nor be less than 4% per annum. The loan is collateralized by certain land, building and machinery and equipment. The loan agreement provides for the maintenance of a certain ratio of other debt and equity to this loan as well as for a minimum level of investment in land, building and machinery and equipment. The first repayment of twelve equal semi-annual installments was made July 1, 1996. The loan matures January 1, 2002.

[ii] Other long-term debt of $5.8 million [AS 55 million] [1996 - $7.9 million (AS 60 million)] advanced under a total line of $5.8 million. Interest is currently payable at VIBOR [Vienna Interbank Overnight Rate] plus 3/4%. The first repayment of twelve equal semi-annual installments was made June 30, 1997. The loan matures December 31, 2002.

[iii] Bank term debt of $3.2 million [DM 4.3 million] advanced under total lines of $3.2 million. Interest is currently payable at fixed rates ranging from 5.00% to 7.32% with the weighted average

rate being 6.82%. The principal amounts are repayable at various intervals over the next eight years. This debt, which was assumed on the purchase of Eralmetall [see Note 4[a]], is collateralized by land and building.

[iv] Additional bank term debt, denominated in German deutschmarks, of $0.4 million [1996 - $0.2 million] advanced for the purchase of specific fixed assets under total lines of $0.4 million. Interest is payable at rates ranging from 6.50% to 8.06%. The principal amounts are repayable at various intervals over the next four years.

[c] Future annual principal repayments on long-term debt are estimated to be as follows for the years ending July 31:

	[Canadian dollars in thousands]
1998	$ 4,549
1999	3,216
2000	4,264
2001	2,660
2002	1,959
Thereafter	1,259
	$ 17,907

[d] Operating lines

[i] The Company has an unsecured $40 million operating line of credit bearing interest at variable rates per annum not exceeding the bank's prime rate of interest. At July 31, 1997, the entire line was unused and available.

[ii] LAP has an unsecured operating line of credit in the amount of $15 million of which $12.1 million was unused and available at July 31, 1997. The credit agreement provides for the maintenance of certain financial ratios. LAP also has foreign exchange facilities in the amount of U.S.$100 million [see Note 9[h]]. One of LAP's subsidiaries has unsecured demand lines of credit totaling $5.2 million [DM 7 million] all of which was unused and available at July 31, 1997.

[iii] Blau Europe has various operating lines of credit denominated in both German deutschmarks and Austrian schillings in the amount of $7.0 million. As at July 31, 1997, $1.6 million of these lines were unused and available. Interest is payable at VIBOR plus 1/2% [LIBOR plus 1/2% for drawings in foreign currencies] for loans denominated in Austrian schillings. Interest on German deutschmark denominated loans is payable at both prime rate and fixed rates between 5.25% and 8.5%. Accounts receivable and certain assets of subsidiaries have been pledged as collateral under these lines of credit.

[iv] Eralmetall has an operating line of credit denominated in German deutschmarks totaling $0.4 million [DM 0.6 million]. As at July 31, 1997 this line was fully drawn. Interest is fixed at 7.25% and certain accounts receivable and other assets of the subsidiary have been pledged as collateral under this line of credit.

[e] Interest paid includes:

	1997	1996	1995
	[Canadian dollars in thousands]		
Interest on long-term debt	**$ 843**	$ 758	
Other interest income, net - external	**(517)**	(583)	$ (119)
Interest expense - debt due to Magna	**9**	168	2,435
Interest paid for the year	**$ 335**	$ 343	$ 2,316

[f] The Company had commitments under operating leases requiring minimum annual rental payments for the years ending July 31 as follows:

	[Canadian dollars in thousands]
1998	$ 3,304
1999	2,683
2000	2,132
2001	1,867
2002	1,635
Thereafter	2,824
	$ 14,445

Approximately 27% of these lease commitments represent the Company's share of commitments of its proportionately consolidated joint ventures.

For the year ended July 31, 1997, payments under operating leases amounted to approximately $4.0 million [1996 - $3.4 million; 1995 - $3.0 million].

[g] As at July 31, 1997, the Company has commitments to purchase fixed assets of approximately $24 million.

[h] The Company has net cash inflows denominated in U.S. dollars and German deutschmarks. The Company, including LAP, utilizes foreign exchange forward contracts for the sole purpose of hedging a significant portion of its projected exposure over a five-year period. This exposure is based on U.S. dollar and deutschmark denominated contractual commitments to deliver products to the Company's customers. For the year ended July 31, 1997, the Company had outstanding net foreign exchange forward contracts representing a commitment to sell approximately U.S.$206.8 million and 19.5 million deutschmarks at weighted average rates of exchange of Cdn.$1.42 and Cdn.$1.04, respectively. These contracts mature over the next five years as follows:

	U.S. Dollar		Deutschmarks	
	Amount	Rate	Amount	Rate
	[Amounts in millions]			
1998	$ 86.9	$ 1.42	DM 0.9	$ 1.15
1999	54.9	1.44	9.2	1.02
2000	29.0	1.40	7.5	1.06
2001	28.1	1.42	1.9	1.02
2002	7.9	1.38		
	$ 206.8		DM 19.5	

If the Company's foreign exchange contracts had been closed out at July 31, 1997, the Company would have received approximately $19.8 million. If these contracts ceased to be effective as hedges [i.e., if projected net cash inflows declined significantly], previously unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign denominated cash flows would be recognized in income at the time this condition was identified.

[i] Effective with the fiscal year beginning August 1, 1995, the Company's Corporate Constitution requires that a portion of the Company's profits be distributed or used for certain purposes, including but not limited to the following:

- allocation or distribution of 10% of pre-tax profits to employees and/or the Tesma Employee Equity Participation and Profit Sharing Program (including the Tesma International Inc. (Canadian) Deferred Profit Sharing Plan ["Tesma DPSP"] forming part thereof);
- allocation of a minimum of 7% of pre-tax profits to research and development; and
- payment of dividends to shareholders based on a formula of after-tax profits.

10. convertible series preferred shares

The Company is authorized to issue and has outstanding the following Convertible Series Preferred Shares:

	Number of Shares	
	1997	1996
Preferred Shares, Series 1	**300,000**	300,000
Preferred Shares, Series 2	**200,000**	200,000
Preferred Shares, Series 3	**89,750**	200,000

These shares have the following attributes:

- carrying value of $100 per share
- 6.5% preferential non-cumulative cash dividend per annum, payable on a fiscal quarterly basis
- retractable at their carrying value by the holders thereof after August 1, 1997, in the case of the Preferred Shares, Series 1; August 1, 1998, in the case of the Preferred Shares, Series 2; and August 1, 1999, in the case of the Preferred Shares, Series 3
- redeemable at their carrying value and subject to purchase for cancellation by the Company commencing August 1, 1998
- convertible into Class A Subordinate Voting Shares at a price of $11.025 per share [subject to certain customary antidilutive adjustments].

The Convertible Series Preferred Shares were issued to Magna on July 18, 1995 in satisfaction of $70 million of the Company's indebtedness to Magna.

For purposes of accounting for the Convertible Series Preferred Shares, in accordance with the new recommendations outlined under Significant Accounting Policies, three key attributes of these shares were valued as of their date of issuance and are presented separately in the Company's consolidated financial statements. These three key attributes are:

[i] the retraction of the Convertible Series Preferred Shares at their carrying value by the holders;
[ii] the non-cumulative cash dividend payable in respect of the Convertible Series Preferred Shares; and
[iii] the ability to convert the Convertible Series Preferred Shares into Class A Subordinate Voting Shares at a fixed price.

The retraction attribute is a liability of the Company because it is at the option of the holder and is presented as long-term debt. The non-cumulative nature of the dividend means it is dissimilar to an interest payment on debt and, therefore, the long-term debt is presented as

the net present value of (i.e., at a discount to) the carrying value which becomes payable, at the option of the holder, on the dates indicated above. The resultant discount is amortized to income systematically from the date of issuance until the date of retraction for each series of the Convertible Series Preferred Shares.

The non-cumulative dividend, for reasons indicated above, is not considered debt-related. However, because holders of the Convertible Series Preferred Shares expect to receive dividends and it was the Company's expectation, at the date of issuance, to pay dividends, there is a value to the expected stream of dividend payments. The net present value of this expected dividend stream has, therefore, been presented as equity. As dividends are declared, a systematically calculated portion of the dividend is shown as a return of capital and deducted from the amount presented as equity. The dividends on the Convertible Series Preferred Shares as presented in the consolidated statements of income and retained earnings reflect the actual dividend declared net of the amount considered a return of capital.

The third attribute, the conversion feature, is similar to a stock warrant in that it provides holders with the option to exchange their Convertible Series Preferred Shares for Class A Subordinate Voting Shares at a fixed price. The residual approach was used to value this attribute, and this amount is classified as equity in a manner consistent with accounting for stock purchase warrants.

The portion of the Convertible Series Preferred Shares classified as long-term debt, the amounts reflected as amortization of discount on Convertible Series Preferred Shares, and the portion converted to Class A Subordinate Voting Shares are as follows:

	Preferred Shares			
	Series 1	Series 2	Series 3	Total
	[Canadian dollars in thousands]			
Issuance on July 18, 1995	$ 27,276	$ 17,289	$ 16,398	$ 60,963
Amortization of discount	45	30	29	104
Balance, July 31, 1995	27,321	17,319	16,427	61,067
Amortization of discount	1,308	851	829	2,988
Balance, July 31, 1996	28,629	18,170	17,256	64,055
Amortization of discount	1,371	893	788	3,052
Conversion to Class A Subordinate Voting Shares *[i]*			(9,910)	(9,910)
Balance, July 31, 1997	**$30,000**	**$19,063**	**$ 8,134**	**$57,197**

The portion of the Convertible Series Preferred Shares included in shareholders' equity is as follows:

	1997	1996
	[Canadian dollars in thousands]	
Warrant portion (relating to conversion feature) *[i]*	$ 652	$ 1,239
Dividend stream portion (relating to non-cumulative dividends) *[i]*	1,944	5,189
	$ 2,596	$ 6,428

[i] On June 5, 1997 Magna converted 110,250 Preferred Shares, Series 3, into 1,000,000 Class A Subordinate Voting Shares at a price of $11.025. The carrying value on the Company's books on that date of $10.9 million (consisting of a debt portion of $9.9 million, a warrant portion of $0.6 million and a dividend stream portion of $0.4 million) has been reflected as the consideration for the Class A Subordinate Voting Shares issued on the conversion.

11. capital stock

Prior to July 31, 1995, the Company amended its Articles of Incorporation to, among other things, change its authorized and issued capital stock and the rights, restrictions and conditions attaching to the Class A Subordinate Voting and Class B Shares of the Company.

[a] class A subordinate voting shares and class B shares

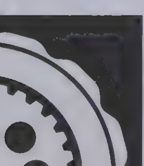
Class A Subordinate Voting Shares without par value [unlimited amount authorized] are entitled to one vote per share at all meetings of shareholders and shall participate equally as to cash dividends with each Class B Share.

Class B Shares without par value [unlimited amount authorized] are entitled to 10 votes per share at all meetings of shareholders, shall participate equally as to cash dividends with each Class A Subordinate Voting Share and may be converted at any time into fully-paid Class A Subordinate Voting Shares on a one-for-one basis.

In the event that either the Class A Subordinate Voting Shares or the Class B Shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class.

On June 5, 1997, the Company received the net proceeds from the $69.0 million treasury offering of 3,680,000 of its Class A Subordinate Voting Shares.

Outstanding Class A Subordinate Voting Shares and Class B Shares included in shareholders' equity consisted of [Canadian dollars in thousands]:



	Class A Subordinate Voting Shares		Class B Shares	
	Number of shares	Consideration	Number of shares	Consideration
Balance, July 31,1994 *[i]*	2,634,492		10,223,475	$ 1,100
Consolidation of Class A Subordinate Voting Shares on a 0.9579873 for one basis	(110,682)			
Consolidation of Class B Shares on a 0.9526558 for one basis			(484,022)	
Issuance of Class B Shares to 1128969 Ontario Inc. for cash			1,706,381	17,917
Reduction in stated capital of Class B Shares *[ii]*				(17,917)
Repurchase of Class A Subordinate Voting Shares from 1128969 Ontario Inc. in exchange for Class B Shares	(2,523,810)		2,523,810	
Issuance of Class B Shares to 1128969 Ontario Inc. for its 55% interest in Blau North America and its 45% interest in Blau Europe *[i]*			254,256	1,483
Issuance of Class A Subordinate Voting Shares to Wahlheim Capital Inc. *[Note 4[b]]*	739,155	$ 7,761		
Initial public offering *[iii]*	2,990,000	28,927		
Balance, July 31, 1995	3,729,155	36,688	14,223,900	2,583
Offering expenses *[iii]*		(95)		
Balance, July 31, 1996	3,729,155	36,593	14,223,900	2,583
Issuance of Class A Subordinate Voting Shares to the Tesma DPSP *[iv]*	159,920	1,687		
Treasury offering *[v]*	3,680,000	66,850		
Conversion of Convertible Series Preferred Shares *[Note 10]*	1,000,000	10,931		
Exercise of Incentive Stock Options *[Note 11[b]]*	33,500	352		
Balance, July 31, 1997	**8,602,575**	**$ 116,413**	**14,223,900**	**$ 2,583**

[i] The consideration for these shares of $1.5 million has been presented in a manner consistent with the basis of presentation for these investments as outlined in Notes 1, 2 and 4[b]. As such, the stated value of the Class B Shares as presented on the consolidated balance sheets reflects the increases in Class B Shares as outlined in Note 2.

[ii] By resolution dated July 18, 1995, the Company reduced the stated capital of the outstanding Class B Shares of the Company by $17.9 million and increased retained earnings by a corresponding amount.

[iii] Details of the proceeds from the 1995 initial public offering of Class A Subordinate Voting Shares are as follows:

	[Canadian dollars in thousands]
Total proceeds - 2,990,000 shares at $10.50 per share	$ 31,395
Underwriters' fee	(1,884)
Other expenses of the issue	(1,874)
Tax savings in respect of above fee and expenses	1,290
Net proceeds	$ 28,927

In 1996, additional expenses of the issue in the amount of $95, net of deferred taxes of $54, were incurred. These amounts are shown as a reduction of the consideration on the Class A Subordinate Voting Shares in 1996.

[iv] In respect of a portion of the Company's funding obligation to the Tesma DPSP for 1996 (as described in Note 9[i]), 159,920 Class A Subordinate Voting Shares were issued to The Canada Trust Company as trustee of the Tesma DPSP at $10.55 per share.

[v] Details of the proceeds from the 1997 treasury offering of Class A Subordinate Voting Shares are as follows:

	[Canadian dollars in thousands]
Total proceeds - 3,680,000 shares at $18.75 per share	$ 69,000
Underwriters' fee	(2,760)
Other expenses of the issue	(599)
Tax savings in respect of above fee and expenses	1,209
Net proceeds	$ 66,850

[b] incentive stock option plan

Under the 1995 Incentive Stock Option Plan adopted by the Company on July 19, 1995, as amended and subsequently approved by the shareholders on December 4, 1996, the Company may grant options to purchase Class A Subordinate Voting Shares to present and future officers, directors, other full-time employees or consultants of the Company. The maximum number of shares reserved to be issued for options is 3,000,000 subject to certain adjustments.

The following is a continuity schedule of the options outstanding:

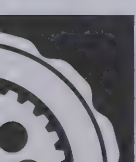
	Number	Price
Balance, July 31, 1995	800,000	$ 10.50
Options granted	150,000	$ 10.50
Balance, July 31, 1996	950,000	
Options granted	837,500	$ 10.50
Options exercised	(33,500)	$ 10.50
Balance, July 31, 1997	1,754,000	
Exercisable at July 31, 1997	864,000	
Available for grant at July 31, 1997	1,212,500	

All options granted are for a term of ten years from the date of grant. In general, options vest 20% on the date of the grant and 20% on each of the following four anniversaries of the grant date. However, all options granted in fiscal 1996 vested immediately and 750,000 of the options granted in 1997 vest 33 1/3% on the grant date and 16 2/3% on each of the following four anniversaries of the grant.

[c] maximum number of shares

The following table presents the maximum number of shares that would be outstanding if all the outstanding options and Convertible Series Preferred Shares issued and outstanding at July 31, 1997 were exercised or converted.

	Number of shares
Class A Subordinate Voting Shares outstanding at July 31, 1997	8,602,575
Class B Shares outstanding at July 31, 1997	14,223,900
Options to purchase Class A Subordinate Voting Shares	1,754,000
Preferred Shares, Series 1, convertible at $11.025 per share	2,721,088
Preferred Shares, Series 2, convertible at $11.025 per share	1,814,059
Preferred Shares, Series 3, convertible at $11.025 per share	814,059
	29,929,681



[d] basic earnings per share

Earnings per Class A Subordinate Voting Share or Class B Share for the year ended July 31, 1997 has been calculated using 18,809,515 [1996 - 17,953,055; 1995 - 14,223,900] shares, representing the daily weighted average number of Class A Subordinate Voting Shares outstanding during the year of 4,585,615 [1996 - 3,729,155; 1995 - nil] plus 14,223,900 [1996 - 14,223,900; 1995 - 14,223,900] Class B Shares being the number of Class B Shares outstanding after the completion of all of the capital transactions described in Note 11 [a].

[e] fully diluted earnings per share

The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all Convertible Series Preferred Shares had been converted, and all outstanding options had been exercised at the later of the beginning of the year and the issue date. There is an allowance for imputed earnings equal to the amortization of the discount on the Convertible Series Preferred Shares, plus the dividends declared less the portion considered a return of capital and imputed after-tax earnings on the proceeds that would be received through the assumed exercise of the stock options based on an assumed after-tax rate of return of 2.7% for the year ended July 31, 1997 and 3.8% for all other years.

[f] dividends

Dividends declared and paid on the outstanding Class A Subordinate Voting Shares and Class B Shares, excluding the July 18, 1995 series of dividends described below, aggregated $3.8 million in 1997 [1996 - $2.7 million; 1995 - $3.0 million]. In connection with the reorganization of the Company on July 18, 1995 as discussed under "Principles of Consolidation", the Company declared and paid a series of dividends aggregating $45 million on the then outstanding Class A Subordinate Voting Shares and Class B Shares.

12. financial instruments

[a] fair value

The Company has determined the estimated values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instrument are discussed below.

Short-term financial assets and liabilities, including cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, are valued at their carrying amounts as presented in the consolidated

balance sheets. The carrying values are reasonable estimates of fair value due to the short period to maturity of the financial instruments.

Fair value information is not readily available for the Company's investments. However, management believes the market value to be in excess of the carrying value since the book value of the equity in the investments exceeds the Company's carrying value.

Rates currently available to the Company for long-term debt (including the debt portion of the Convertible Series Preferred Shares) with similar terms and remaining maturities have been used to estimate the fair value of the long-term debt which approximates the carrying value for all years.

The Company enters into foreign currency forward contracts to manage foreign exchange risk. If the Company did not use forward contracts, its exposure to financial risks would be higher. The Company does not enter into forward contracts for speculative purposes. The fair value of foreign exchange forward contracts reflects the estimated amounts that the Company would receive or pay to effectively terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses on the open contracts. The fair value of these financial instruments, none of which is recorded, is discussed in note 9[h].

[b] credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable and foreign exchange forward contracts.

The Company, in the normal course of business, is exposed to credit risk from its customers substantially all of which are in the automotive industry. These accounts receivable are subject to normal industry credit risks.

Cash, which consists of short-term investments including commercial paper, is only invested in governments and corporations with a minimum credit rating of R1 (low) by the Dominion Bond Rating Service ["DBRS"] or its equivalent. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this credit risk by dealing only with counterparties which are Canadian banks with a minimum credit rating of R1 (mid) by the DBRS or its equivalent and which are included on an authorized list of counterparties maintained by the Company. The Company also monitors its relative positions with each counterparty. The maximum credit risk, based on the theoretical amount, term and exchange rates, amounts to approximately $20 million. This risk is divided amongst six financial institutions. The Company does not anticipate non-performance by any of the counterparties to their contractual obligations.

[c] interest rate risk

The Company has historically not utilized interest rate swap agreements to reduce the impact of changes in interest rates upon its floating rate debt as the amount which is floating has been at more favourable rates.

The following table summarizes the Company's exposure to interest rate risk as at July 31, 1997:

	Floating rate	Fixed interest rate maturing in 1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial Assets:						
Cash	$ 75,810					$ 75,810
Accounts receivable and all other receivables					$ 77,097	77,097
Financial liabilities:						
Bank indebtedness	(7,469)					(7,469)
Accounts payable and all other accrued liabilities and payables					(71,941)	(71,941)
Long-term debt	(11,312)	$ (1,243)	$ (3,180)	$ (734)	(1,438)	(17,907)
Convertible Series Preferred Shares			(27,197)		(30,000)	(57,197)
	$ 57,029	$ (1,243)	$ (30,377)	$ (734)	$ (26,282)	$ (1,607)
Average fixed rate of long-term debt		6.47%	4.99%	7.15%		

13. currency translation adjustment

The following is a continuity schedule of the currency translation adjustment account included in shareholders' equity:

	1997	1996
	[Canadian dollars in thousands]	
Balance, beginning of year	$ 2,873	$ 4,298
Translation adjustments	(5,255)	(1,425)
Balance, end of year	$ (2,382)	$ 2,873

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation loss of $5.3 million [1996 - loss of $1.4 million] primarily from the weakening of the German deutschmark and other European currencies against the Canadian dollar during the year.

14. research and development

Research and development expenditures, net of amounts funded by governments or customers, for the year ended July 31, 1997 were $13.1 million [1996 - $8.7 million; 1995 - $4.5 million].

15. details of cash from operating activities

[a] Items not involving current cash flows:

	1997	1996	1995
	[Canadian dollars in thousands]		
Depreciation and amortization	$ 19,058	$ 14,829	$ 9,062
Amortization of discount on Convertible Series Preferred Shares	3,052	2,988	104
Deferred income taxes	2,290	1,087	108
Minority interest			(406)
Equity loss			4,486
Other	2,415	1,279	1,132
	$ 26,815	$ 20,183	$ 14,486

[b] net change in non-cash working capital:

	1997	1996	1995
	[Canadian dollars in thousands]		
Accounts receivable	$ (18,803)	$ (12,242)	$ (3,834)
Inventories	695	(4,102)	(6,630)
Prepaid expenses and other	(2,369)	1,459	(456)
Accounts payable and other accrued liabilities	5,131	4,895	3,236
Accrued salaries and wages	729	4,434	466
Income taxes payable	(7,769)	3,502	8,177
	$ (22,386)	$ (2,054)	$ 959

16. segmented information

The Company's operations are substantially all related to the automotive industry. Operations include the manufacture of automobile parts for original equipment manufacturers as well as products for the after-market. Substantially all of the Company's revenues are derived from sales to North American and European facilities of the major automobile manufacturers. For the year ended July 31, 1997 sales to the Company's four largest customers amounted to 31%, 19%, 11% and 8% of total sales [1996 - 31%, 19%, 12% and 8%; 1995 - 33%, 24%, 11% and 9%].

The following table shows certain information with respect to geographic segmentation:

	Canada				Europe	Eliminations	Total
	Domestic	Export					
		U.S.A.	Europe	Other			
	[Canadian dollars in thousands]						
July 31, 1997							
Sales	$ 43,998	$ 264,670	$ 65,135	$ 42,987	$ 134,728		$ 551,518
Intersegment					4,391	$ (4,391)	
	$ 43,998	**$ 264,670**	**$ 65,135**	**$ 42,987**	**$ 139,119**	**$ (4,391)**	**$ 551,518**
Income before income taxes and minority interest	**$ 39,029**				**$ 6,688**		**$ 45,717**
Assets	**$ 273,189**				**$ 76,306**		**$ 349,495**
July 31, 1996							
Sales	$ 38,171	$ 228,087	$ 51,510	$ 30,808	$ 107,004		$ 455,580
Intersegment					3,507	$ (3,507)	
	$ 38,171	$ 228,087	$ 51,510	$ 30,808	$ 110,511	$ (3,507)	$ 455,580
Income before income taxes and minority interest	$ 34,735				$ 552		$ 35,287
Assets	$ 196,813				$ 61,608		$ 258,421
July 31, 1995							
Sales	$ 34,157	$ 185,007	$ 34,288	$ 23,221	$ 68,235		$ 344,908
Income before income taxes and minority interest	$ 22,373				$ 4,057		$ 26,430
Assets	$ 177,637				$ 68,161		$ 245,798

17. related party transactions

The Company had transactions with Magna and its affiliates as follows:

	1997	1996	1995
	[Canadian dollars in thousands]		
Interest, affiliation fees and other charges by Magna and affiliates	**$ 11,605**	$ 10,159	$ 10,002
Sales to Magna and affiliates	**$ 14,222**	$ 14,665	$ 10,793
Purchases of materials from Magna and affiliates	**$ 5,547**	$ 5,444	$ 5,152

The Company is party to an affiliation agreement with Magna that provides for the payment by the Company of an affiliation fee and certain other negotiated charges in exchange for, among other things, Magna granting the Company a non-exclusive world-wide license to use certain Magna trademarks, and Magna providing certain management and administrative services to the Company. The affiliation fee is based on the sum of certain specified percentages of sales and the pre-tax profits before profit sharing [after adjustments to add back certain amounts specified in the agreement] of the Company and its subsidiary entities and joint ventures in which it has an equity interest, less any fees paid to other Magna affiliates for providing, instead of Magna, benefits or services to the Company. The current affiliation agreement expired on July 31, 1997, at which time, a revised affiliation agreement comes into effect for a five year term. Under the terms of the

revised affiliation agreement, the affiliation fee will be computed solely as a percentage of reported consolidated net sales. Other charges will continue to be negotiated annually and will be based on the level of benefits or services provided by Magna to the Company.

Sales to and purchases from Magna and affiliates are typically effected on normal commercial terms.

18. contingencies

[a] patent infringement lawsuit

In July 1997, a verdict was returned against the Company by a U.S. jury following a patent infringement claim filed by Stant Manufacturing Inc. ["Stant"] in September 1996. The jury found that a particular fuel cap produced by the Company willfully infringed three U.S. patents owned by Stant. A separate jury trial to determine damages is expected to occur in October 1997.

Management of the Company believes that the jury verdict is incorrect, that the Company's case continues to have substantive merit and that legitimate grounds exist to overturn this verdict on review or appeal. Accordingly, legal counsel have been instructed to proceed with appropriate review and appeal proceedings, and to vigorously defend the Company's position in the damages trial. As the final outcome of this claim is uncertain, and the potential effect, whether material or not, on the Company's consolidated financial position is not reasonably determinable at the present time, no provision has been recorded in the accounts of the Company as at July 31, 1997.

[b] general

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

19. United States generally accepted accounting principles

The Company's consolidated financial statements are prepared using accounting policies generally accepted in Canada ["Canadian GAAP"] which conform with accounting principles generally accepted in the United States ["United States GAAP"] except for the following:

[a] Under United States GAAP the income tax provision would be calculated using the liability rate method;

[b] The calculation of primary earnings per share would be calculated using the weighted average number of common shares and common share equivalents which include stock options using the treasury stock method. The calculation of fully diluted earnings per share requires the use of the treasury stock method to calculate the weighted average number of outstanding shares;

[c] The loans to employees, as described in note 5, which were provided for the purpose of purchasing Class A Subordinate Voting Shares would be shown as a reduction of the Class A Subordinate Voting Shares;

[d] Under United States GAAP, the Company would not have accounted for the Convertible Series Preferred Shares as part equity and part debt based on its three key attributes as required under Canadian GAAP. Under Canadian GAAP, the dividend on the Convertible Series Preferred Shares is presented net of an assumed return of capital and the discount on the portion of the Convertible Series Preferred Shares classified as debt is amortized to income. Under United States GAAP, the entire dividend is presented on the consolidated statement of income and because the financial instrument would be recorded at its face value as debt no amounts would be reflected as a return of capital, nor would any discount be amortized to the consolidated statement of income;

[e] The Company would account for its investment in its joint ventures using the equity method. However, a reconciliation from the proportionate consolidation method to the equity method of accounting for the Company's investment in its joint ventures has not been provided as it is not required under United States securities regulations;

[f] Under United States GAAP investing and financing activities that do not result in cash receipts or cash payments would not be reported in the consolidated statements of cash flows. Consequently, in 1997, under United States GAAP the issuance of Class A Subordinate Voting Shares and the conversion of Convertible Series Preferred Shares would both be reduced by $9.9 million, representing the conversion of Convertible Preferred Shares, Series 3 during the year. Also, in 1995 the cash used for investment activities, as described in note 4[b][ii], would decrease by $7.8 million and the cash provided from financing activities would decrease by $7.8 million;

[g] The Company continues to measure compensation cost related to awards of stock options using the intrinsic value based method of accounting as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" as permitted by SFAS 123. In this instance, however, under SFAS 123 "Accounting for Stock Based Compensation", the Company is required to make proforma disclosures of net income attributable to Class A Subordinate Voting Shares and Class B Shares and Primary and Fully diluted earnings per Class A Subordinate Voting Share or Class B Share as if the fair value method of accounting had been applied.

The fair value of the stock options is estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions for 1997 and 1996 respectively: risk-free interest rates of 5.7% and 6.2%; dividend yields of 2.5% and 2.5%; expected volatility of 25% and 24%; and, expected lives of 5 years and 4 years. The Black Scholes option valuation model used by the Company to determine fair values, as well as other currently accepted option valuation models were developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. Because the Company's outstanding stock options have characteristics which are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Accordingly, for purposes of proforma disclosures, the Company's net income attributable to Class A Subordinate Voting Shares and Class B Shares would have been reduced by $1.0 million [1996 - $0.1 million], primary earnings per Class A Subordinate Voting Share or Class B Share would have been reduced by $0.05 [1996 - $0.01] and fully diluted earnings per Class A Subordinate Voting Share or Class B Share would have been reduced by $0.04 [1996 - nil]; and,

[h] Under SAB 74, the Company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates. Specifically, SFAS 128 "Earnings Per Share" is effective for fiscal periods beginning after December 15, 1997. The Company has not determined the impact, if any, of SFAS 128 on its consolidated financial statements.

The following table presents net income and earnings per share information following United States GAAP:

	1997	1996	1995
	[Canadian dollars in thousands, except per share figures]		
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under Canadian GAAP	**$ 24,614**	$ 18,539	$ 14,807
Adjustments:			
Amortization of discount on Convertible Series Preferred Shares	**3,052**	2,988	104
Return of capital on Convertible Series Preferred Shares	**(2,811)**	(2,609)	
Income tax provision adjustment under the liability rate method		(270)	110
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under United States GAAP	**$ 24,855**	$ 18,648	$ 15,021
Earnings per Class A Subordinate Voting Share or Class B Share			
Primary	**$ 1.28**	$ 1.04	$ 1.06
Fully diluted	**$ 1.14**	$ 0.91	$ 1.04
Weighted average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year [in millions]			
Primary	**19.4**	18.0	14.2
Fully diluted	**25.9**	24.3	14.5

Under United States GAAP, the Company's deferred tax liabilities consist of the following temporary differences:

	1997	1996
	[Canadian dollars in thousands]	
Tax deferred income	**$ 10,242**	$ 8,446
Tax depreciation in excess of book depreciation	**11,901**	15,907
Tax losses	**(10,313)**	(7,379)
Valuation allowance	**7,408**	4,135
	$ 19,238	$ 21,109

The following table presents shareholders' equity under United States GAAP:

	1997	1996
	[Canadian dollars in thousands]	
Class A Subordinate Voting Shares	**$ 116,264**	$ 35,854
Class B Shares	**2,583**	2,583
Retained earnings	**57,355**	36,346
Currency translation adjustment	**(2,382)**	2,873
	$ 173,820	$ 77,656

20. comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to The Canadian Institute of Chartered Accountants new recommendations with respect to the presentation and disclosure of financial instruments and to conform to the presentation of the 1997 consolidated financial statements.

6 year financial summary

operations data

	Years Ended July 31					
	1992	1993	1994	1995	1996	**1997**
	[Canadian dollars in thousands, except per share figures]					
Sales	$ 167,667	$ 223,761	$ 280,343	$ 344,908	$ 455,580	**$ 551,518**
Income before equity loss, income taxes and minority interest	7,893	25,283	31,707	30,916	35,287	**45,717**
Net income	6,833	22,278	19,497	14,807	19,495	**26,478**
Earnings per Class A Subordinate Voting Share or Class B Share						
Basic	$ 0.48	$ 1.57	$ 1.37	$ 1.04	$ 1.03	**$ 1.31**
Fully diluted	$ 0.48	$ 1.57	$ 1.37	$ 1.03	$ 0.91	**$ 1.13**
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding *[millions]*						
Basic	14.2	14.2	14.2	14.2	18.0	**18.8**
Fully diluted	14.2	14.2	14.2	14.5	25.1	**26.6**
Cash flow from operating activities	$ 9,650	$ 37,616	$ 24,128	$ 30,252	$ 37,624	**$ 30,907**

financial position

	As at July 31					
	1992	1993	1994	1995	1996	**1997**
	[Canadian dollars in thousands, except debt to equity ratio]					
Cash (net of bank indebtedness)	$ 2,874	$ 5,533	$ (3,022)	$ 37,898	$ 28,641	**$ 68,341**
Total assets	78,009	101,554	127,448	245,798	258,421	**349,495**
Fixed asset additions	2,406	7,123	15,778	28,318	29,175	**48,052**
Long-term debt (excluding current portion)	59,064	48,183	34,448	20,230	15,934	**13,358**
Convertible Series Preferred Shares	-	-	-	61,067	64,055	**57,197**
Shareholders' equity (deficit)	(15)	20,181	38,704	71,711	83,430	**174,931**
Long-term debt (excluding current portion) to equity ratio	N/A	2.37:1	0.88:1	0.28:1	0.19:1	**0.08:1**

quarterly financial & share information

quarterly financial information (unaudited)

[Canadian dollars in thousands, except per share figures]

Fiscal 1997	October 31	January 31	April 30	July 31	Total
Sales	$ 136,306	$ 118,020	$ 150,882	$ 146,310	**$ 551,518**
Income before income taxes	11,874	10,933	13,419	9,491	**45,717**
Net income	6,723	6,008	8,013	5,734	**26,478**
Basic earnings per Class A or Class B share	$ 0.35	$ 0.30	$ 0.42	$ 0.24	**$ 1.31**
Fully diluted earnings per Class A or Class B share	$ 0.30	$ 0.26	$ 0.34	$ 0.23	**$ 1.13**

Fiscal 1996	October 31	January 31	April 30	July 31	Total
Sales	$ 109,363	$ 109,460	$ 120,281	$ 116,476	$ 455,580
Income before income taxes	7,065	7,216	12,688	8,318	35,287
Net income	3,982	4,337	6,282	4,874	19,495
Basic earnings per Class A or Class B share	$ 0.22	$ 0.24	$ 0.32	$ 0.25	$ 1.03
Fully diluted earnings per Class A or Class B share	$ 0.19	$ 0.21	$ 0.28	$ 0.23	$ 0.91

share information

The Class A Subordinate Voting Shares ["Class A Shares"] are listed and traded in Canada on the Toronto Stock Exchange ["TSE"] and in the United States on the NASDAQ National Market ["NASDAQ"]. As of September 30, 1997, there were 109 registered holders of Class A Shares.

Canada
Class A (TSE) ($CDN)

1997 Quarter	Volume	High	Low	Close
1st	447,660	12.15	9.00	12.05
2nd	1,110,263	19.80	11.00	18.50
3rd	432,446	20.10	17.30	19.05
4th	2,090,211	22.75	18.00	22.75

1996 Quarter	Volume	High	Low	Close
1st	695,090	10 3/8	6 1/2	7 3/4
2nd	782,610	9 7/8	6 1/2	8 5/8
3rd	428,292	10.00	7 5/8	9.60
4th	316,945	10.50	8.95	10.50

United States
Class A (NASDAQ) ($US)

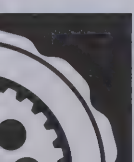
1997 Quarter	Volume	High	Low	Close
1st	76,940	8 3/4	6 3/4	8 3/4
2nd	236,824	15	8 1/2	13 3/4
3rd	110,716	15	12 3/4	13 5/8
4th	60,392	16 3/4	12 7/8	16

1996 Quarter	Volume	High	Low	Close
1st	112,565	7 3/4	4 63/64	5 3/4
2nd	109,700	7 1/4	4 3/4	6 11/32
3rd	64,518	7 1/8	5 27/32	7 1/8
4th	32,500	7 5/8	6 3/8	7 5/8

Distribution of Shares
Class A

Country	%
Canada	78.0
United States	11.0
Other	11.0

Country	%
Canada	82.0
United States	4.4
Other	13.6

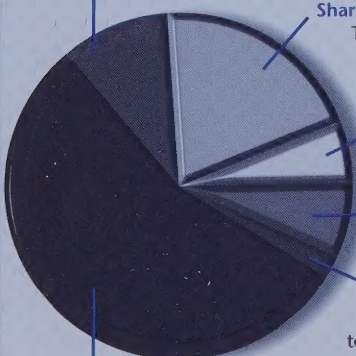


corporate constitution

Tesma's Corporate Constitution defines the rights of employees, management and investors to participate in Tesma's profits and growth, encourages technological development and promotes social objectives. Tesma's unique Employee Charter commits the Company to an operating philosophy based on fairness and concern for people. These core principles, in conjunction with a decentralized entrepreneurial management philosophy, create an environment where dedication and innovation are rewarded. The challenge for Tesma's management is to expand on these principles by developing, motivating and recruiting a superior team of well trained and experienced employees to build and support future growth. Accordingly, Tesma has made training and human resource development at all levels a key priority, and will ensure that significant "investments" are made in the people who design, develop, engineer and manufacture our products for our customers around the world.

Employee Equity and Profit Participation

10% of Tesma's profit before tax will be allocated to employees, recognizing length of service, as cash distributions and as contributions to the Tesma deferred profit sharing plan (which invests primarily in Tesma Class A shares).



Shareholder Profit Participation

Tesma will distribute during each of its 1996 and 1997 fiscal years at least 10% of its annual net profit to its shareholders. This amount increases to, on average, 20% of Tesma's annual net profit commencing in its 1998 fiscal year.

Management Profit Participation

To obtain long-term contractual commitment from senior management, the Company provides a compensation arrangement which allows for the distribution to corporate management of up to 6% of Tesma's profit before tax.

Research & Development

Tesma will allocate 7% of its profit before tax for research and development to ensure the long-term viability of the Company.

Social Responsibility

Tesma will allocate up to 2% of its profit before tax for charitable, educational and political purposes to support the basic fabric of society.

Taxes and Reinvestment

The balance of Tesma's profit before tax is allocated for future growth, reinvestment and taxes.

Minimum Profit Performance

Management has an obligation to produce a profit. If Tesma does not generate a minimum after-tax return of 4% on share capital for two consecutive years, the Class A shareholders, voting as a class, will have the right to elect additional directors.

Unrelated Investments

Class A and Class B shareholders, with each class voting separately, will have the right to approve any investment in an unrelated business in the event such investment together with all other investments in unrelated businesses exceeds 20% of Tesma's equity.

Board of Directors

Tesma believes that outside directors provide independent counsel and discipline. A majority of the members of Tesma's Board of Directors will be individuals who are not officers or employees of the Company, at least two of which will be complete outsiders.

corporate information

board of directors

Donald J. Walker (2)
Chairman of the Board, Tesma International Inc.
President & Chief Executive Officer, Magna International Inc.

Manfred Gingl
President & Chief Executive Officer, Tesma International Inc.

Georg Grammer
Chairman & Chief Executive Officer, Grammer AG

Oscar B. Marx, III (2)
President & Chief Executive Officer, TMW Enterprises, Inc.

J. Robert S. Prichard (1) (2)
President, University of Toronto

Robert K. Rae (1)
Partner, Goodman, Phillips & Vineberg

Frank Stronach
Chairman of the Board, Magna International Inc.

Judson D. Whiteside (1)
Chairman & Chief Executive Officer, Miller Thomson

(1) member of the Audit Committee
(2) member of the Human Resources and Compensation Committee

officers

Manfred Gingl, President & Chief Executive Officer

Anthony E. Dobranowski, Executive Vice President & Chief Financial Officer

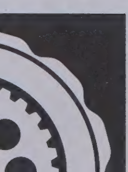
David J. Carroll, Vice President, Planning & Corporate Development

Pat Cerullo, Vice President, Sales & Marketing

Stefan T. Proniuk, Vice President, Secretary & General Counsel

Franz Reiterer, Vice President, Manufacturing

James L. Moulds, Controller



transfer agents & registrars

Canada - Class A
Montreal Trust Company of Canada, Toronto
United States - Class A
The Bank of Nova Scotia Trust Company of New York, New York

stock listing

Class A
Toronto Stock Exchange - TSM.A
NASDAQ National Market- TSMAF

auditors

Ernst & Young,
Toronto, Canada

principal bankers

Canadian Imperial Bank of Commerce, Toronto, Canada

corporate office

300 Edgeley Boulevard
Concord, Ontario, Canada L4K 3Y3
Telephone: 905.669.5444
Telefax: 905.738.4888

annual meeting of shareholders

11:00 a.m., Wednesday, December 3, 1997
Vanity Fair Ballroom, King Edward Hotel
37 King Street East, Toronto, Ontario, Canada

investor information

Shareholders seeking assistance or information about the Company are requested to contact Anthony E. Dobranowski, Executive Vice President & Chief Financial Officer at:

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Concord, Ontario, Canada L4K 3Y3
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Telefax: 905.669.0673

Tesma around the world

● manufacturing ● sales & engineering offices ● customers

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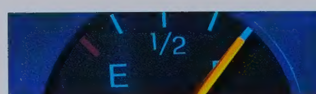
uropean sales offices: Tesma Europa GmbH, Gebäude C, Industriestrasse 23, D-41516 Grevenbroich telefon: (02182) 82 14 20 telefax: (02182) 82 14 22

Tesma Europa GmbH, Edelstrut 1-3, D-73486 Adelmannsfelden telefon: (07963) 90 60 0 telefax: (07963) 90 60 30



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